

**Annual Report
& Accounts**

2009/2010



Falkirk Council

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INTRODUCTION TO THE ACCOUNTS

The statements which follow, show the financial results of Falkirk Council for the year to 31 March 2010.

They comprise:

- ◆ A Foreword by the Director of Finance providing a summary of the Council's financial position.
- ◆ A Statement of the Accounting Policies followed in preparing the Accounts.
- ◆ A Statement of Responsibilities for the Statement of Accounts.
- ◆ An Annual Governance Statement.
- ◆ The Income and Expenditure Account - this highlights gross revenue expenditure, income and net expenditure for each of the Council's main service groups. The Account shows how net expenditure has been financed.
- ◆ The Statement of Movement on the General Fund Balance – this statement provides a reconciliation to show how the balance of resources generated/consumed in the year links with statutory requirements for raising Council Tax.
- ◆ The Statement of Total Recognised Gains and Losses – this brings together all the gains and losses of the Council for the year and shows the aggregate change in its net worth.
- ◆ The Balance Sheet - sets out the overall financial position of the Council as at 31 March 2010.
- ◆ The Cash Flow Statement - shows where the Council's money came from and how it was spent.
- ◆ The Housing Revenue Income and Expenditure Account - shows how much the Council spent in meeting its statutory requirement to provide, improve and manage its housing stock and to fulfil its enabling function for the provision of further dwellings.
- ◆ The Statement of Movement on the Housing Revenue Account (HRA) Balance – this shows the reconciliation of the outturn on the HRA Income and Expenditure Account to the surplus or deficit for the year on the HRA Balance.
- ◆ The Council Tax Income Account - shows gross Council Tax income for the Council. Deductions from the charges are made for reliefs and provisions against future bad debts.
- ◆ The Non-Domestic Rate Income Account - shows the gross income from Non-Domestic Rates and the contribution to the national Non-Domestic Rate Pool.
- ◆ Common Good Funds – shows the statement of income and expenditure and the Balance Sheet for the Common Good Funds.
- ◆ Group Financial Statements which reflect the Council's interest in the Police, Fire and Rescue and Valuation Joint Boards, FCSL (Holdings) Ltd, Falkirk Community Stadium Limited and Common Good Funds.
- ◆ The Pension Fund Accounts for the Falkirk Council Pension Scheme - show the income and expenditure of the fund and includes a statement of net assets held, as at 31 March 2010.

FOREWORD BY THE DIRECTOR OF FINANCE

1. INTRODUCTION

The purpose of these Accounts is to demonstrate the Council's stewardship of the significant amount of public funds it controls.

The results for 2009/10 are set out on pages 20 to 72 and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009. This foreword seeks to provide a guide to the most significant matters disclosed in the Accounts.

2. INCOME AND EXPENDITURE ACCOUNT

The Income and Expenditure Account on page 20 provides a summary of the cost of providing council services. It shows the figures in line with the way services are actually organised and delivered by the Council. However, in order to comply with the guidance contained within the Best Value Accounting Code of Practice 2009 (BVACOP), Note 3 restates these figures into standard generic groups to facilitate inter authority comparison.

The General Fund Balance detailed at Note 4 has increased by £0.769m, compared to a budgeted deficit of £1.410m giving a total movement of £2.179m. The main reasons for this movement are summarised below:

	£'000
Decreased Revenue Support Grant	(764)
Increased Non-Domestic Rates	879
Increased Council Tax Income	214
Increased Trading Account Surpluses	397
Savings on Loan Charges	1,465
Increased cost of Service delivery in Social Work, Education and Development	(3,530)
VAT Settlement (net)	1,365
Offsetting savings by other General Fund Services	1,102
Net variance in Uncommitted General Fund	1,128
Reduced costs in the Housing Revenue Account	801
Savings in Debt Repayments not charged to Revenue	1,337
Savings on Loan Charges relating to New Schools project	97
Reduced contributions from Earmarked Funds	(1,184)
	2,179

The increased cost of Service delivery in Social Work is primarily as a result of significant pressure in childrens' residential and crisis care and also in adult home care and 24 hour care. This was partly offset by staff savings and additional income and the net overspend was £2.889m.

The increased cost of Service delivery in Education arises mainly from increased costs of provision of Support for Learning Assistants and Teachers. These costs are mitigated by reduced operational costs and the Devolved Schools Reserve. The net overspend was £0.293m.

The increased cost of Service delivery in Development Services results primarily from a combination of severe winter weather and reduced income from fees and charges, partly offset by lower spending on waste disposal and staffing. The net overspend was £0.391m.

A Capital Fund (Capital Receipts Reserve) was used to repay loans, resulting in savings in debt repayment of £1.337m. These savings, together with associated interest will be used as a contribution towards the New Schools Project in 2011 (see Note 4).

As a result of a court of appeal judgement, the Council has been able to reclaim £1.365m, net of professional fees, from HM Revenue and Customs relating to VAT payments covering a number of years.

The Council's General Fund balance has therefore increased to £38.2m. The table at Note 4 sets out the composition of the General Fund balance, including a range of funds which have been earmarked for specific purposes. The resultant uncommitted general fund balance of £6.8m is consistent with the level of uncommitted General Fund reserves of between £5.5m and £7.5m referred to in the Council's Reserves Strategy approved in August 2006.

There are currently a significant number of equal pay claims being considered in conjunction with the Council's legal advisors. While the eventual cost cannot be fully quantified at this time it is considered appropriate to retain a provision of £5m in the 2009/10 accounts. In addition, the Council has been given permission to borrow c£5.6m in respect of these potential costs.

3. HOUSING SERVICES

In order to comply with accounting requirements, the Housing Revenue Income and Expenditure Account includes impairment on housing assets totalling £13.48m. The Statement of Movement on the Housing Revenue Account balance adjusts this amount by a corresponding credit which is part of the amount required by statute to be debited or credited to the Housing balance for the year.

Compared to a budgeted deficit of £1.4m, the overall position was a net deficit of £0.609m. This was transferred to the earmarked Housing Revenue Account balance resulting in a cumulative balance going forward of £5.934m (see Note 4). It should be noted that around £1.1m of balances has been earmarked to restrict house rent levels in 2010/11.

4. CAPITAL EXPENDITURE

The Council has set its capital expenditure limits in accordance with the Prudential Code. The objective of the Code is to ensure that all capital spending is affordable, prudent and sustainable. In 2009/10, the Council incurred capital expenditure of £27m on areas such as Education, Social Work, Leisure, Economic Development and Roads infrastructure and a further £14m on Council Housing. Major investment by the Council included:

- ❑ £7m on school buildings
- ❑ £9m on roads and infrastructure in the Falkirk area
- ❑ £5m on the Council's commercial property portfolio and other community assets
- ❑ £4m on Vehicle, Plant and Equipment purchases
- ❑ £2m on various Social Work properties

The Council's investment programme was funded from capital grants and other contributions (£12m), capital receipts including sale of assets (£5m), borrowing (£20m) and funding from revenue (£4m). At the end of the year, Council borrowing totalled £156.924m. The external borrowing figures remain within the limits set by the Council in line with the Prudential Code requirements.

5. PUBLIC PRIVATE PARTNERSHIP (PPP)

In order to provide fit for purpose schools, the Council has entered into a scheme under PPP financing arrangements. This scheme involved the replacement of five schools which were first occupied by the Council in August 2000. The basic annual cost of these schools is £12.798m. The 2009 SORP includes revised accounting arrangements for Private Finance Initiatives, Public Private Partnerships and similar arrangements (PFI). This has resulted in the value of these schools being included in the balance sheet for the first time and the effect of this is summarised in Note 5(a).

6. NOT FOR PROFIT DISTRIBUTING ORGANISATION (NPDO)

The Council reached Financial Close in May 2007 on its second PPP scheme to provide four new high schools. This Council is using a Non-Profit Distributing Organisation (NPDO) model. Two schools were delivered in January and February 2009 and a further two were delivered in June and July 2009. The basic annual cost of these schools is £10.457m. The 2009 SORP includes revised accounting arrangements for Private Finance Initiatives, Public Private Partnerships and similar arrangements (PFI). This has resulted in the value of these schools being included in the balance sheet for the first time and the effect of this is summarised in Note 5(a).

7. BALANCE SHEET

The Balance Sheet on Page 22 summarises the assets and liabilities of the Council as at 31 March 2010. Net assets have decreased from £325.387m to £136.845m. This decrease is summarised in the Statement of Total Recognised Gains and Losses on Page 21, with the main reason being a significant increase in pension fund liabilities.

8. TRADING ACCOUNTS

Summary Accounts showing the financial position of the statutory and other trading accounts are set out in Note 12. The net surplus was £2.860m. Both statutory Trading Accounts exceeded the minimum financial requirement to break-even over a three year rolling period.

9. PENSION LIABILITIES

In terms of Financial Reporting Standard 17 (Accounting for Pensions) the Council is required to show the actuarially assessed net pension deficit/liability within the Balance Sheet. The deficit is assessed as £289.253m as at 31 March 2010 (£124.107m in 2008/09). Pension Fund deficits have increased significantly since last year due to the fact that the real discount rate has decreased from 3.7% to 1.6%, reflecting the fall in corporate bond yields. Further information on accounting for retirement benefits can be found in Note 31. Future actuarial valuations will recommend employer contribution rates which, together with employee contributions and revenues generated by the Fund's assets will be sufficient to meet future pension liabilities.

10. GROUP FINANCIAL STATEMENTS

Group Financial Statements have been prepared (see pages 59 to 64) which reflect the Council's interest in the Police, Fire and Rescue and Valuation Joint Boards, FCSL (Holdings) Ltd, Falkirk Community Stadium Limited and Common Good Funds. The effect of inclusion of the Council's interests on the Group Balance Sheet is to reduce both Reserves and Net Assets by £303.043m. The main reason for this reduction is due to the inclusion of pension fund deficits attributable to the Police, Fire and Rescue and Valuation Joint Boards. Pension Fund deficits have increased significantly since last year due to the fact that the real discount rate has decreased from 3.7% to 1.6% reflecting the fall in corporate bond yields. Improvements in life expectancy have also increased pension fund liabilities. Although improved investment returns have strengthened asset values this has not been enough to outweigh the steep rise in liabilities. Notwithstanding the excess of liabilities over assets, I consider it appropriate to adopt a going concern basis for the preparation of these financial statements as the amounts will fall due to be met by the constituent authorities and Scottish Government grants as appropriate.

11. CHANGE IN ACCOUNTING POLICIES

Collection of Non-Domestic Rates

The 2009 SORP confirms that the Collection of National Non-Domestic Rates is carried out by local authorities acting as an agent for central government as the revenue collected belongs to the government and is redistributed to authorities as part of the Local Government Finance Settlement. This has required retrospective changes to individual items in the 2008/09 Balance Sheet and notes to the Core Financial Statements, but has no impact on the Council's reported financial position.

Accounting for PFI and Similar Arrangements

The 2009 SORP includes revised accounting arrangements for Private Finance Initiatives, Public Private Partnerships and similar arrangements (PFI). Under accounting arrangements prior to 1 April 2009 a local authority was only required to recognise a PFI related asset on the Balance Sheet where certain tests were satisfied. The tests included that payments for property can be separated, these can be treated as a finance lease and that the local authority has the benefits and risk of the property. Applying these tests resulted in many PFI assets not being recognised on local authority Balance Sheets. Under the new arrangements for 2009/10, the criteria for asset recognition has moved from risk and reward to issues about the control of service provision and control over the residual value of the asset.

The comparative figures to the year to 31 March 2009 have been restated to take account of this change and these entries are summarised in Note 37 to the Annual Accounts. The change in policy has had the effect of including 9 schools in the accounts, which has added £1.1m to Net Operating Expenditure (which is reversed out of the Statement of Movement on the General Fund Balance) and £71.6m to Net Assets.

12. FUTURE DEVELOPMENTS

The Council's revenue budget strategy will continue to reflect the priorities set out in the Council's 2008-2011 Corporate Plan agreed by Council in March 2008. The revenue budget for 2010/11 incorporates additional investment of £3.8m in a number of the Council's priority areas including:

- New Schools including their expansion for community use
- Carers Support and Kinship Care
- Increasing demands in Social Work and other areas

Additional resources to deliver key government policies and programmes specified in the Single Outcome Agreement such as extending entitlement to free school meals and reducing class sizes were also included within the budget. The budget also allows for additional resources of £2.8m to reflect the increasing demands on the Social Work and other Service budgets.

In recognition of the need for ongoing efficiency savings and reduction in government grant levels, the Council's budget strategy required all areas of expenditure and income to be subject to detailed scrutiny. This included reducing employee costs through the scheme of Voluntary Severance, Service restructuring, maximising income through reviewing existing fees and charges and examining the potential to generate more income through the introduction of new charges and seeking a contribution of savings from joint boards.

The Council will also continue to focus on a strategic approach to the generation of efficiencies which aims to prioritise efficiencies that minimise the impact on services provided.

The Council will approve a three year capital investment plan for all areas of service delivery. This plan will help the Council and its Services to meet Community, Corporate and Services Plan priorities and improve facilities for the Falkirk area and its community. In respect of Housing, the Council will continue to develop and monitor the Standard Development Plan, which outlines how the Council will improve its housing stock to meet the Scottish Quality Standard by 2015 and maintain that standard going forward.

13. IMPACT OF ECONOMIC CLIMATE

The Council is not immune from the impact of the economic downturn and has experienced a reduction in certain income streams e.g. planning applications and has encountered considerable difficulty in generating capital receipts from asset disposals while demand for services has not reduced. The Council's investment plans for 2010/11 have anticipated an ongoing lower level of receipts from asset disposals and this will be monitored on an ongoing basis.

In December 2008 and January 2009 the Council agreed a number of measures which were aimed at bolstering the area's economy, including using accelerated Scottish Government Grant to bring forward proposals earmarked for economic development and allocating £100,000 of revenue funding over financial years 2008/09 and 2009/10 to permit the extension of business support. The Council is also aiming to pay suppliers invoices within 20 days compared to the previous target of 30 days.

14. ACKNOWLEDGEMENTS

I should like to record my appreciation for the efforts of my own staff in producing these Accounts timeously and to colleagues throughout the Council for their help and co-operation.

A. Jannetta

A Jannetta, CPFA
Director of Finance
30 September 2010

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL

The Accounts relate to the financial year ended 31 March 2010. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2009 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LA(S)AAC), a Statement of Recommended Practice (SORP) and the Code of Practice on Best Value Accounting 2009. Any departures from these recommendations are stated in the notes to the core financial statements. These accounts have been prepared under the historic cost convention as modified by the revaluation of certain fixed assets.

2. CHANGES TO THE STATEMENT OF ACCOUNTS INTRODUCED IN THE 2009 STATEMENT OF RECOMMENDED PRACTICE (SORP)

Collection of Non-Domestic Rates

The 2009 SORP confirms that the collection of National Non-Domestic Rates is carried out by local authorities acting as an agent for central government as the revenue collected belongs to the government and is redistributed to authorities as part of the Local Government Finance Settlement. This has required retrospective changes to individual items in the 2008/09 Balance Sheet and notes to the Core Financial Statements, but has no impact on the Council's reported financial position.

Accounting for PFI and Similar Arrangements

The 2009 SORP includes revised accounting arrangements for Private Finance Initiatives, Public Private Partnerships and similar arrangements (PFI). Under accounting arrangements prior to 1 April 2009 a local authority was only required to recognise a PFI related asset on the Balance Sheet where certain tests were satisfied. The tests included that payments for property can be separated, these can be treated as a finance lease and that the local authority has the benefits and risk of the property. Applying these tests resulted in many PFI assets not being recognised on local authority Balance Sheets. Under the new arrangements for 2009/10, the criteria for asset recognition has moved from risk and reward to issues about the control of service provision and control over the residual value of the asset.

Based on the revised criteria contained within the 2009 SORP an exercise was carried out which concluded that the 2 PFI schemes operated by Falkirk Council would result in the assets being recognised on the Balance Sheet.

The 2 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
- Falkirk Schools Gateway Ltd for the provision of 4 schools with payments due from January 2009 and terminating in March 2040

The SORP 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 SORP requires local authorities to separate the PFI unitary charge between its constituent elements:

- The fair value of services received by the authority or provided on its behalf for the year
- Asset lifecycle maintenance costs
- Interest costs arising from the financing arrangements
- Repayment of the finance lease

It also requires as proper accounting practice that the interest and service charge elements be charged to the Income and Expenditure Account. In addition, the asset lifecycle replacement cost is treated as an addition to Fixed Assets and the repayment of the finance lease as a reduction to the finance lease – both Balance Sheet entries. As such a scenario would result in a reduction in the total sum charged to the Income and Expenditure Account as compared to previous accounting arrangements, statutory intervention has now 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)
- 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 Statement of Movement on The General Fund Balance should ensure that there is no effect on the General Fund Balance between the previous and new accounting arrangements.

The comparative figures to the year to 31 March 2009 have been restated to take account of this change and these entries are summarised in Note 37 to the Annual Accounts.

3. ACCRUAL OF INCOME AND EXPENDITURE

Transactions of the Council are recorded in the Accounts on the accruals basis in accordance with Financial Reporting Standard 18, 'Accounting Policies' (FRS 18). In other words, income and expenditure are matched to the service provided in the financial year, by including both estimated and actual amounts due to or by the Authority as at 31 March where these are significant. This applies to both Revenue and Capital accruals. Debtor and Creditor balances represent sums due but unpaid at 31 March 2010.

4. INTEREST

Interest on external borrowing is fully accrued in order that each year bears the cost of interest relating to its actual external borrowing.

5. GRANTS AND SUBSIDIES

Grants and subsidies attributable to a particular service are included within the net expenditure of that service.

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or other contribution is credited to the Deferred Government Grants Reserve and written off in the service revenue account over the useful life of the asset to match the depreciation of the asset to which it relates.

6. STOCKS AND WORK IN PROGRESS

All stocks have been valued in accordance with Statement of Standard Accounting Practice 9 'Stocks and Long Term Contracts' (SSAP9) as follows:-

- Lower of cost and net realisable value (nrv)
- At average cost - For stocks held on the Procon computer system, which has been designed to value stocks at average cost. The difference between the average cost and valuation at the lower of cost and net realisable value is not considered material.
- At latest invoice price - For stocks which are generally minimal and the records are held manually. It is therefore more practical to value these items at latest invoice price. The difference between the replacement cost and the book value for these stocks is not considered material.

Full details are provided in Note 23. Work in progress has been valued at the cost of work completed to 31 March 2010.

7. INTANGIBLE ASSETS, FIXED ASSETS, AND DEBT AMORTISATION

Intangible Assets i.e. software licences, have been valued at cost. The following classifications of Fixed Assets have been used: Council Dwellings, Other Land and Buildings, Vehicles, Plant and Equipment, Infrastructure, Community Assets, Investment Properties, Surplus Assets and Assets under Construction. Intangible Assets are amortised on a straight line basis over the life of the asset from the year after the year of purchase.

Council Dwellings have been valued on 'Existing Use Value' (Social Housing) basis, Other Land and Buildings and Vehicles, Plant and Equipment on the basis of open market value for the existing use or, where this could not be assessed, depreciated replacement cost, Infrastructure and Community Assets on the basis of historical cost, Investment Properties and Surplus Assets on the basis of open market value and Assets under Construction on cost.

Surplus Assets are those which have been declared surplus to operational requirements and have not been included in a specific Council plan.

All assets are subject to a rolling programme of revaluation. Gains resulting from revaluations are accounted for through the Revaluation Reserve. Losses are accounted for through the Income and Expenditure Account and adjusted through the Capital Adjustment Account to the extent that the Revaluation Reserve does not contain a revaluation gain relevant to a specific asset.

Note 16(b) details the basis of valuation for each classification.

Fixed assets are reviewed for impairment at the year end where events and changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment caused by the loss of economic benefit, e.g. fire damage, is charged to the appropriate service revenue account. Impairment arising from a general change in price is reflected through the Capital Adjustment Account.

The gain or loss on disposal of a tangible fixed asset is posted to the Income and Expenditure Account. In order to comply with statutory restrictions on the use of capital receipts, the gain or loss is then reversed out of the Income and Expenditure Account through the Statement of Movement on the General Fund Balance. The disposal proceeds are credited to the Capital Receipts Reserve and the carrying amount of the asset disposed of debited to the Capital Adjustment Account.

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, is capitalised and classified as a tangible fixed asset, provided that it yields benefits to the authority and the services it provides are for a period of more than one year. The de-minimis level for the acquisition of vehicles, plant and equipment is £7,000 however there is no de-minimis level for the acquisition, creation or enhancement of all other asset types.

Council Dwellings are not depreciated. The 'Existing Use Value' (Social Housing) valuation method adopted results in a particularly high residual value, consequently the gap between the carrying value of the houses and this residual value is small, which in turn renders depreciation immaterial. Land is not depreciated. Buildings, Vehicles, Plant and Equipment, Infrastructure, Community Assets and Surplus Assets (excluding land) are depreciated on a straight line basis over the estimated life of the asset. Investment Properties and Assets under Construction are not depreciated in accordance with the requirements of the 2009 Code of Practice.

Note 16(a)(i) details the basis of depreciation for each classification.

All Services are charged with a depreciation charge for the use of fixed assets from the year after the year of purchase. Depreciation on surplus assets is charged to Non-Distributed Costs. The appropriation of revenue income to fund capital expenditure and any adjustment for the shortfall/over provision in depreciation as compared to the minimum debt repayment, is accounted for through the Capital Adjustment Account. These transactions can be seen in Note 14 which reconciles the movement on the General Fund Balance and the corresponding note for the HRA.

Loans Fund interest and expenses are charged to the net operating expenditure section of the Income and Expenditure Account for the General Fund and the HRA.

Scheduled debt amortisation, that is the element of principal of loans charges repaid by the General Fund and HRA to the loans fund, has been carried out in accordance with paragraph 15 of Schedule 3 to the Local Government (Scotland) Act 1975.

As from 1 April, 1997 the Council resolved to redeem debt on the basis of the annuity system in place of the equal instalment system inherited from its predecessor authorities.

In previous financial years, the Council had incurred premiums and discounts in relation to the restructuring of its long term borrowings which would be written off over the future accounting periods which would benefit from the reduced interest costs. This was held as a long term asset on the Balance Sheet. The 2007 SORP required that all premiums and discounts should be written off to the Income and Expenditure Account.

Transitional arrangements are in place to mitigate the impact of past debt restructuring on the General Fund balance by allowing a contribution to be made from the Financial Instruments Adjustment Account, which will subsequently be written off to the General Fund balance based on the statutory basis agreed by the Scottish Government, being the period of the replacement loans.

Capital Receipts are used to augment the Council's capital investment resources and these are detailed in Note 16(c).

8. FINANCIAL INSTRUMENTS

The term financial instrument covers financial assets and liabilities.

Financial Liabilities

Financial liabilities (borrowings repayable) are initially measured at fair value and carried at their amortised costs. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. 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 Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as 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 Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

Long term liabilities due to be settled within 12 months of the Balance Sheet date are presented in current liabilities.

Financial Assets

Financial assets are classified as Loans and receivables which are assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables (investments) are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by 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 Income and Expenditure Account is the amount receivable for the year in the loan agreement.

9. PROVISIONS

The Council is required to provide for all known liabilities where the authority has a present obligation as a result of a past event, where the outflow of economic benefits is probable and where a reasonable estimate can be made of the amount that will be paid. Any provisions for liabilities of uncertain timing or amounts that have been incurred are included in the financial statements in accordance with FRS12, under Note 21.

10. RESERVES

Reserves are amounts set aside for specific purposes outwith the definition of provisions. Section 93 of the Local Government (Scotland) Act 1973 requires the Authority 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 SORP.

The reserves maintained are as follows:-

Revenue Reserves

General Fund

The General Fund relates to the revenue reserves of the Council, elements of which are regarded as earmarked funds e.g. Council Housing (HRA), Devolved Schools, New Schools Project, Economic Development and Energy Efficiency.

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 surpluses generated by the Council's Trading Accounts.

Capital Reserves

Revaluation Reserve

This reserve records the increase in value of fixed 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.

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.

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.

Pensions Reserve

The Council has established a Pensions Reserve under Financial Reporting Standard 17 (FRS 17). This reserve reflects the net pensions liability of the Council for its defined benefit pension schemes.

Movements in all reserves are shown in Note 30.

11. VALUATION OF INVESTMENTS

Investments are valued at cost or market value, if lower. The valuation methodology applied to Pension Fund investments is described in the appropriate sections of the Accounts.

12. LEASES, COVENANTS AND SIMILAR SCHEMES

Rental payments made under operating and finance leases are charged to the appropriate revenue account on a straight-line basis, over the terms of the leases. The amounts paid under these arrangements and the undischarged obligations as at 31 March 2010 are disclosed in Note 6. Note 5 discloses the estimated outstanding obligations in respect of the school service provision PPP contract.

13. OVERHEADS AND SUPPORT SERVICES

The costs of Central Support Services have been fully allocated to all Services and Trading Accounts in accordance with the CIPFA Best Value Accounting Code of Practice 2009 but not to Common Good and Trust Funds. The main allocation bases are summarised below:-

<u>Cost</u>	<u>Allocation Base</u>
Professional Services (Finance, Legal etc)	Actual time spent by staff and direct allocation
Administrative Buildings	Area Occupied
Information Services	Machine Usage and Time Allocations
Payroll	No. of Payroll Transactions
Creditors	No. of invoices paid
Sundry Debtors	No. of invoices issued
Human Resources	No. of Full Time Equivalent Employees and actual time spent by staff

14. CORPORATE AND DEMOCRATIC CORE AND NON-DISTRIBUTED COSTS

- (i) The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. In accordance with CIPFA Guidance, these costs have not been recharged to services but accumulated and charged to the General Fund and the Housing Revenue Account.
- (ii) Non-Distributed Costs comprise the cost of discretionary benefits awarded to employees retiring early. In accordance with CIPFA Guidance, these costs have not been recharged to services but accumulated and charged to the General Fund and Housing Revenue Account.

15. RETIREMENT BENEFITS

Pension costs charged to these Accounts are in accordance with FRS17 Retirement Benefits.

The Council participates in two pension schemes that meet the needs of employees in different services. In addition, from time to time, the Council may award discretionary benefits to employees who are retiring.

All schemes provide members with defined benefits related to pay and service.

Teachers

The Teachers' Pension Scheme is an unfunded scheme administered by The Scottish Public Pensions Agency. The employer contribution rate is 14.9% of pensionable pay. The Scottish Government has set this rate on the basis of a notional fund.

Although the Teachers' Scheme provides defined benefits, the pension costs have been disclosed as if the scheme were a defined contribution scheme. The pension costs charged to the Accounts therefore consist of the employer contributions paid in respect of current employees and no liability for future payments of benefits is recognised in the Balance Sheet.

As a result, the Council does not comply with UK GAAP 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.

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 in Note 4 to the Pension Fund Accounts.

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 projected earnings for current employees).

Liabilities are discounted to their value at current prices, using a real discount rate of 1.6% (based on the indicative rate of return on high quality corporate bond).

The assets attributable to the Council are included in the Balance Sheet at their fair value: Where there is an active market, bid price is usually the appropriate quoted market price.

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 Income and Expenditure Account to the revenue accounts of 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 Net Cost of Services in the Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account
- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- gains/losses on settlements and curtailments - the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs
- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – shown in the Statement of Total Recognised Gains and Losses
- contributions paid to the Local Government Pension Scheme - cash paid as employee's contributions to the pension fund.
- 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 in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance 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 and any amounts payable to the fund but unpaid at the year-end.

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 Notes 13 and 31 of the core financial statements.

16. CONTINGENT LIABILITIES

Where the Council has a possible, rather than a certain obligation, or has a present obligation, but the outflow of economic benefits is not probable or has a present obligation where the probable outflow cannot be readily measured, these liabilities are disclosed in the Notes to the Core Financial Statements. Where such liabilities are reduced through contributions or recoveries from other parties the net liability is shown. Details of such liabilities are shown in Note 26.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

FALKIRK COUNCIL RESPONSIBILITIES

The Council made the necessary arrangements for the proper administration of its financial affairs, the Director of Finance being the nominated officer responsible for this task.

The Council managed its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the Council's Statement of Accounts which, in terms of the CIPFA/LA(S)AAC Code of Practice on Local Authority Accounting in the United Kingdom 2009, is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

In preparing this Statement of Accounts, the Director of Finance has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements that were reasonable and prudent; and
- complied with the accounting code of practice.

The Director of Finance has also:-

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

Introduction

1. Falkirk Council has a duty under the Local Government in Scotland Act 2003 to make arrangements to secure best value and ensure continuous improvement in the Services it delivers. The Council must ensure that public money is used economically, efficiently, and effectively, and that this responsibility is undertaken with due regard to the achievement of sustainability.
2. To help ensure that these responsibilities are met, the Council must put in place comprehensive and robust governance arrangements, and must ensure that these arrangements are properly applied. This must be done within the context of the Single Outcome Agreement 2009-11 which sets out the improvements the Council, its Community Planning Partners, and the Scottish Government want to make in the Falkirk Council area.
3. Responsibility for ensuring good governance is shared by all Falkirk Council employees and elected Members, and must be part of the culture of the organisation. To demonstrate Falkirk Council's commitment to ensuring good governance, this Statement has been prepared on the basis of the principles set out in the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'* to highlight established and developing good practice as well as areas for further improvement. It should be noted that any review of governance arrangements can provide reasonable but not absolute assurance that policies, aims, and objectives are being applied and implemented as intended.
4. The CIPFA/SOLACE Framework defines governance as being the arrangements that ensure Authorities are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. In practice, this comprises the systems, processes, cultures and values by which the Council is directed and controlled and through which it engages with the community.
5. Preparation of this Annual Governance Statement is voluntary, and exceeds the requirements of Chapter 8 of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice.

Falkirk Council's Governance Framework

6. The following sections summarise the key elements of Falkirk Council's governance framework, set out within the context of the six Principles of Good Governance defined within the CIPFA/SOLACE Framework.

Principle 1 - Focusing on the purpose of the Authority and on outcomes for the community, and creating and implementing a vision for the local area.

7. This principle is about developing and communicating the Council's vision, purpose, and intended outcomes for citizens and service users.
8. The Council has a well established business planning process, with clear links between the Single Outcome Agreement 2009-11, Community/Corporate Plans, and operational priorities set out in Service Plans. Performance at all levels is subject to rigorous Officer and Member review via, for example, Single Outcome Agreement Monitoring Statement scrutiny by Council and regular Service performance reporting to the Best Value Forum. The Council has implemented an electronic performance management system to allow the timely and reliable recording and reporting of performance related information.
9. Service Performance continues to be made publicly available via the 'Performance Zone' area of the Council's website. This includes performance against targets set out in Service Plans, as well as against the Accounts Commission's suite of Statutory Performance Indicators.
10. The Business Improvement Team was set up in May 2008 to lead on projects designed to improve the efficiency and effectiveness of systems and processes. A key element of the Business Improvement Team's work relates to the implementation of the Public Sector Improvement Framework (PSIF)/REFLECT initiative within Falkirk Council, and an initial programme of self assessment reviews using this methodology has been agreed and is underway.
11. Feedback from stakeholders on the delivery of services is sought through a variety of means, for example customer surveys, a Customer First Team (contact centre) and formal complaints procedure have been established.

Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles.

12. This principle is about ensuring effective leadership and that roles and responsibilities are clear and consistent.
13. The Council has well established Standing Orders that regulate the operation of Council Committee meetings. These Standing Orders, which were reviewed and updated during 2009/10, are supported by a Scheme of Delegation to Committees, Contract Standing Orders, and Financial Regulations. A review of the Council's Financial Regulations was also undertaken during 2009/10, with an updated version approved by Council in December 2009.
14. The Chief Executive, Directors, Heads of Service and all other Council employees have job descriptions, and the roll-out of a formal Achievement and Personal Development Scheme is well underway. In addition, a Continuing Professional Development Framework, incorporating Personal Development Plans, has been developed and rolled out to elected Members on a pilot basis.
15. In February 2010, a revised Service Structure was agreed by Council, and the implementation of agreed changes is currently underway. Working arrangements and job descriptions will be kept under review within the context of these changes.

Principle 3 - Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

16. All Members and Officers are expected to demonstrate leadership through high standards of conduct and behaviour. The Council has a Code of Conduct for Members and Officers. This provides guidance on how high ethical standards are to be maintained and includes Protocols for Member/Officer Relations and Officer/Convener Relationships.
17. In addition, all Services are required to comply with the Council's Guidelines on Extra-Mural Employment, and registers of Gifts and Hospitality are maintained. Guidance on Extra-Mural Employment and Gifts and Hospitality is included in the Employee Handbook, available to all staff on the Council's Intranet and provided to staff as part of the induction process.
18. During 2009/10, the Council's Corporate Risk Management Group commenced and progressed an exercise to establish and maintain a corporate record of Officers who have responsibilities with external organisations. This record will be used to ensure that Officers with such responsibilities receive the appropriate training to allow them to properly discharge their role with the external organisation, and that all have been made fully aware of their legal obligations.
19. The Council has a Confidential Reporting Policy and Procedure, supported by an Anti-Fraud and Corruption Strategy.

Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

20. The decision making and scrutiny framework within Falkirk Council encompasses self evaluation as well as internal and external inspection.
21. As mentioned above, the Council has a Business Improvement Team with lead responsibility for implementing the PSIF/REFLECT initiative within Falkirk Council. As well as forming the basis for service specific reviews, the PSIF framework was used by Corporate Management Team to undertake a corporate self assessment. As a result of this self assessment, an improvement plan has been put in place to allow implementation of actions arising from this exercise to be managed and monitored.
22. Corporate Management Team also rely on advice and guidance from Officer led groups responsible for the consideration of, for example, sustainability, best value, ICT Strategy, and risk management, to drive and direct the decision making process.
23. Risk management arrangements were further developed during 2009/10, with a revised risk register presented to, and approved by, the Audit Committee in November. The Corporate Risk Management Group continues to have responsibility for overseeing the implementation of the Council's Risk Management Policy and Strategy, with reporting lines to both Corporate Management Team and the Audit Committee.
24. The Audit Committee itself is now well established, and a programme of training has been put in place to ensure that Members remain well versed in their role and the role of the Committee.

Principle 5 - Developing the capacity and capability of Officers and Members to be effective.

25. This principle is about ensuring that Officers and Members have the appropriate knowledge and skills to allow them to effectively fulfil their roles and responsibilities.
26. Falkirk Council has adopted a corporate induction process which is presented on-line. All new employees are required to undertake this induction. Arrangements for local induction are put in place and delivered by individual Services. A Member induction process is also in place.
27. The Council remains committed to developing its workforce through the provision of a corporate 'Learning Zone' and through the support of individual Services towards achieving Investors in People status. The Achievement and Personal Development Scheme for Officers and Personal Development Plans for Members help ensure that training and development needs are documented and managed in a structured and planned way.

Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability.

28. The Council interacts and engages with stakeholders on a number of levels.
29. Publication of annual accounts and statutory performance information, as well as Service performance information and the results of customer surveys, is done via the 'Performance Zone' on the Council's website. The Council's Customer Service Charter is also available by accessing the 'Performance Zone'.
30. In addition, communications are maintained through the local press, the publication of Falkirk Council News, and through Officer and/or Member representation at public meetings.
31. The Council remains committed to developing systems to allow stakeholders to engage electronically. Contact can also be made through the Customer First Team, by email, or at contact points such as One Stop Shops.
32. Meetings of Falkirk Council and its Committees are open to the public, and agendas and papers are published on the Council's internet site.
33. The Council continues to review its approach to community engagement, and a formal Community Engagement Strategy is in preparation which will be subject to Member consideration and approval during 2010/11. Robust community engagement is, however, already embedded practice, for example in relation to the Council's Parks Strategy, school catchment areas, and the accessibility/content of the Council's website.
34. Arrangements and protocols have been established to meet requests under the Freedom of Information Act within the required timescales.

Monitoring and Review of Governance Arrangements

35. Falkirk Council's governance arrangements are formally monitored via:
 - the Council's established Committee framework, including the Audit Committee;
 - the Best Value Forum and Best Value Working Group;
 - Corporate Management Team;
 - Internal and external audit work;
 - the annual review of governance arrangements used to inform this Statement; and
 - the work of Falkirk Council's Local Area Network, which includes Audit Scotland, Her Majesty's Inspectorate of Education, Social Care and Social Work Improvement Scotland (SCSWIS) and the Scottish Housing Regulator.
36. This monitoring is done within the context of the Delivering Good Governance guidance, the Council's Corporate Plan, Local Community Plan, agreed Single Outcome Agreement, and the fundamental statutory requirement to demonstrate and achieve best value.
37. The Council has a Strategic Planning and Management Framework (SPMF) which brings each of these strands together. The SPMF sets a common operational framework linking all activities to the Council's strategic priorities and service delivery objectives. This framework facilitates the monitoring and management of performance and quality, and provides for demonstrable consistency between strategic and operational aims and objectives.

System of Internal Financial Control

38. This section of the Annual Governance Statement 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 2010. It incorporates assurance on the systems of internal financial controls in place within each of these entities.
39. Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Director of Finance. It should be noted that the system of internal financial control can only provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.
40. The system of internal financial control is based on a framework of risk management, robust management information, application of comprehensive financial regulations, administrative procedures including management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers, and includes:
- arrangements for the identification and management of risks;
 - comprehensive budgeting systems;
 - the preparation and regular review of periodic and annual financial reports which indicate actual expenditure and financial performance against forecasts;
 - setting targets to measure financial and other performance;
 - clear capital expenditure guidelines; and
 - formal project management arrangements.
41. The Council's Internal Audit Section provides an independent assessment of arrangements for risk management, governance and control. The Section undertakes an annual programme of work approved by the Chief Executive, Director of Finance, and Audit Committee. This work is planned taking account of the outcomes of the Council's risk management arrangements and Internal Audit's own assessment of risk.
42. The Council's appointed external auditors have concluded that the Internal Audit Section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
43. All Internal Audit reports are brought to the attention of management and include recommendations and agreed action plans where scope for improvement has been identified. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken to address recommendations. Significant matters, including non-compliance with recommendations arising from Internal Audit work, are reported periodically to the Council's Audit Committee.
44. The Audit Committee, which was set up on the basis of a decision by Council in June 2008, operates in accordance with guidance entitled 'Audit Committee Principles in Local Authorities in Scotland' (CIPFA, 2004) and 'Audit Committees: Practical Guidance for Local Authorities' (CIPFA, 2005), and has a remit to provide:
- independent scrutiny 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 Authority's annual accounts are properly dealt with.
45. Part of the role of the Committee is to consider the Annual Assurance Report provided by the Internal Audit Manager. This report provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance and control, and is based on work undertaken during the year. In his Annual Assurance Report for 2009/10 the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2010.
46. The programme of Internal Audit work for 2009/10 was completed as planned, although there were, as expected, a number of alterations to the Plan as new risks emerged and demands on Internal Audit time changed as a result of, for example, requests for ad hoc and investigative work from Services. The breadth and depth of work undertaken was sufficient to allow the Internal Audit Manager to form a robust and balanced opinion based on the level of assurance provided in each individual Internal Audit report.


47. While, in overall terms, the Internal Audit Manager was able to provide substantial assurance in respect of the Council's control framework, there were areas where limited or no assurance was provided. It is part of the established Internal Audit process to carry out follow-up work to determine the extent to which recommendations have been implemented, and particular emphasis will be placed on recommendations made in these reviews. The outcomes of follow-up work will be reported to Members of the Audit Committee during 2010/11.
48. The Director of Finance is required to review the effectiveness of the Council's systems of internal financial control, taking account of:
- the work of managers within the Council;
 - the work of Internal Audit (as described above); and
 - the work of external audit.
49. Based on consideration of the above, the Director of Finance has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal financial control systems for the year to 31 March 2010.
50. In respect of other entities that fall within the Council's group boundary, the Director of Finance's review of their internal control systems is informed by:
- the Statements on the System of Internal Financial Control or, where available, the Annual Governance Statements, included within the respective financial statements of the Joint Boards; and
 - the work of the relevant bodies' respective external auditors (and, where relevant, Internal Auditors) and other interim reports.
51. Based on consideration of the above, the Director of Finance 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.
52. Earlier in 2010, CIPFA issued its 'Statement on the Role of the Chief Financial Officer (CFO) in Local Government' (the Statement) and an associated 'Application Note to Delivering Good Governance in Local Government: A Framework' (the Application Note). The Statement sets out 5 principles defining the role of the CFO in Local Government, and the Application Note encourages self assessment against these principles with the outputs reported within the Annual Governance Statement.
53. An initial assessment against the principles has been undertaken, confirming broad compliance. A further, more detailed assessment will be undertaken during 2010/11.

Governance Arrangements – Areas for Improvement

54. Falkirk Council is committed to ensuring that governance and internal financial control arrangements are robust, proportionate, and in line with best practice. The Council has a well established culture of improvement, and is thorough in addressing issues that emerge either through self assessment or as part of the external scrutiny process. The process of preparing this Statement has highlighted areas where further work is required, and these will be addressed within the context of the continuous improvement agenda:
- continue to undertake and complete PSIF/REFLECT reviews, and to identify and implement improvement action;
 - complete roll-out of Achievement and Personal Development Scheme to all Council Officers;
 - review working arrangements and job descriptions in light of Service restructure;
 - use the Record of Responsibilities with External Organisations to ensure that Officers with such responsibilities receive the appropriate training and are fully advised of their legal obligations;
 - implement action to address issues raised via the corporate self assessment undertaken by Corporate Management Team;
 - continue to develop and embed risk management arrangements; and
 - finalise and roll out a formal Community Engagement Strategy.

Conclusion

55. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for ensuring good governance and appropriate arrangements for internal financial control for 2009/10 and the period to date. It highlights areas of improvement that have been identified to enhance existing governance arrangements, and is consistent with the Council's established improvement agenda.



Councillor Craig Martin
Leader of Falkirk Council
30 September 2010



Mary Pitcaithly
Chief Executive
30 September 2010

INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2008/09 Net Expenditure (Restated) £'000		2009/10 Gross Expenditure £'000	2009/10 Total Income £'000	2009/10 Net Expenditure £'000	Notes
154,942	Education Services	149,199	5,930	143,269	
68,656	Social Work Services	103,624	22,942	80,682	
13,077	Other Housing Services	42,289	38,878	3,411	
7,620	Housing Revenue Account	49,427	45,474	3,953	
19,120	Development Services	28,567	3,207	25,360	
22,914	Community Services	35,405	13,236	22,169	
14,998	Corporate and Neighbourhood Services	15,085	4,164	10,921	
3,410	Miscellaneous Services	5,602	4,120	1,482	
3,080	Corporate and Democratic Core	3,085	134	2,951	
635	Non-Distributed Costs	7,212	482	6,730	
13,943	Police Services	14,331	-	14,331	
8,809	Fire and Rescue Services	9,414	-	9,414	
1,297	Valuation Services	1,334	-	1,334	
1,000	Exceptional Item	-	-	-	1
333,501	NET COST OF SERVICES	464,574	138,567	326,007	3
(4,455)	(Gain) or Loss on Disposal of Fixed Assets			(3,004)	
(2,090)	Total Net Surplus from Trading Accounts			(2,860)	12
21,513	Interest Payable and Similar Charges			21,903	
(5,045)	Interest Receivable			(448)	
3,188	Pensions Interest and Expected Return on Assets			10,260	
346,612	NET OPERATING EXPENDITURE			351,858	
	Less:				
(199,076)	Government Grant			(210,590)	
(57,416)	Distribution from Non-Domestic Rates Pool			(63,201)	
(59,140)	Council Tax			(59,364)	
(315,632)	TOTAL INCOME FROM GOVERNMENT GRANTS AND LOCAL TAXATION			(333,155)	
30,980	INCOME AND EXPENDITURE (SURPLUS) OR DEFICIT FOR YEAR			18,703	

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being:-

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

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2008/09 (Restated) £'000		2009/10 £'000	Notes
30,980	(Surplus)/Deficit for the year on the Income and Expenditure Account	18,703	
(31,958)	Net additional amount required by statute and non- statutory proper practice to be credited to the General Fund Balance for the year	(19,472)	14
(978)	Increase in General Fund Balance for the year	(769)	
(36,416)	General Fund Balance Brought Forward	(37,394)	
(37,394)	General Fund Balance Carried Forward	(38,163)	4

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2008/09 (Restated) £'000		2009/10 £'000
30,980	(Surplus) or deficit on the Income and Expenditure Account for the year	18,703
(146,324)	(Surplus) or deficit arising on revaluation of fixed assets	16,314
66,309	Actuarial (gains) or losses on pension fund assets and liabilities	156,432
(1,736)	Any other (gains) or losses	(2,907)
(50,771)	Total recognised gains and losses for the year	188,542

BALANCE SHEET

This statement shows the balances and reserves at the Authority's disposal, its long term indebtedness, the net current assets employed in its operations and the fixed assets held.

2008/09 (Restated) £'000		2009/10 £'000	2009/10 £'000	Notes
	Intangible Assets			
259	Software Licences		191	16
	Tangible Fixed Assets:			
88,762	Council Dwellings	88,308		16
485,039	Other Land and Buildings	498,531		16
8,360	Vehicles, Plant and Equipment	10,518		16
70,574	Infrastructure Assets	76,535		16
1,649	Community Assets	1,584	675,476	16
	Non-Operational Assets:			
95,639	Investment Properties	99,913		16
4,077	Assets Under Construction	4,947		16
1,396	Surplus Assets	25,141	130,001	16
755,755	Sub-total		805,668	
7,006	Capital Advance to Central Scotland Joint Fire and Rescue Board		6,571	
8,432	Long-Term Debtors		2,158	22
3,110	Long-Term Investments		9,340	18
	Current Assets:			
25,678	Debtors	30,033		
(10,089)	Less Provision for Bad Debts	(11,050)		
15,589	Net Debtors	18,983		24
846	Stocks and Work in Progress	770		23
2,695	Investments	7,567		
38	Cash and Bank	41		
	Less: Current Liabilities:			
(17,371)	Temporary Advance from Other Funds	(12,441)		
(18,820)	Borrowing Repayable on Demand or within 12 months	(16,445)		19
(41,450)	Creditors	(36,900)		25
(1,933)	Finance Lease Liabilities	(14,220)		5
(173)	Bank Overdraft	(233)		
(60,579)	Net Current Liabilities		(52,878)	
(121,006)	Long Term Borrowing		(140,479)	19
(108,197)	Finance Lease Liabilities		(151,007)	5
(5,000)	Provision for Equal Pay Liabilities		(5,000)	21
(1,853)	Deferred Credits		(1,773)	
(28,174)	Deferred Government Grants and Other Contributions		(46,502)	29
(124,107)	Liability Related to Defined Benefit Pension Scheme		(289,253)	31
325,387	NET ASSETS		136,845	17
	Represented By:			
2,334	Repairs and Renewals Fund		1,290	30
(124,107)	Pensions Reserve		(289,253)	30
37,394	General Fund		38,163	30
169,610	Revaluation Reserve		149,169	30
241,336	Capital Adjustment Account		238,248	30
(7,721)	Financial Instruments Adjustment Account		(7,389)	30/36(a)
2,910	Insurance Fund		3,018	20/30
3,631	Capital Receipts Reserve		3,599	30
325,387			136,845	

A. Jannetta

A Jannetta CPFA
Director of Finance

The unaudited accounts were issued on 28 June 2010 and the audited accounts were authorised for issue on 30 September 2010.

CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2008/09 (Restated) £'000		2009/10 £'000	2009/10 £'000	Notes
(36,257)	NET CASH FLOW FROM REVENUE ACTIVITIES		(27,628)	32
	RETURN ON INVESTMENT AND SERVICING OF FINANCE			
	Outflows			
13,255	Interest Paid	8,240		
8,876	Finance Lease Interest	13,644		
22,131			21,884	
	Inflows			
(5,240)	Interest Received		(337)	
16,891			21,547	
(19,366)	NET CASH FLOW AFTER RETURN ON INVESTMENTS AND SERVICING OF FINANCE		(6,081)	
	CAPITAL ACTIVITIES			
	Outflows			
44,208	Acquisition of Fixed Assets	39,948		
280	Other Capital Cash Payments	117		
44,488			40,065	
	Inflows			
(7,069)	Sale of Assets	(6,728)		
(11,502)	Capital Grants	(13,336)		
(974)	Other Capital Cash Receipts	(1,610)	(21,674)	
24,943	NET CASH FLOW FROM CAPITAL ACTIVITIES		18,391	
	MANAGEMENT OF LIQUID RESOURCES (MLR)			
(31,717)	Short Term Investments		4,872	33(c)
(31,717)	NET CASH FLOW FROM MLR		4,872	
	FINANCING			
	Outflows			
42,146	Long Term Loans Repaid	504		
67,544	Short Term Loans Repaid	79,091		
109,690			79,595	
	Inflows			
-	Long Term Loans Raised	(20,000)		
(83,271)	Short Term Loans Raised	(76,720)		
(83,271)			(96,720)	
26,419	NET CASH FLOW FROM FINANCING		(17,125)	33(b)
279	(INCREASE)/DECREASE IN CASH		57	33(a)

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Exceptional Item

There were no exceptional items (an additional £1m was provided for Equal Pay liabilities in 2008/09).

2. Central Support Services

The net cost of the following Central Support functions has been fully recharged to Services.

2008/09 Net Expenditure £'000		2009/10 Gross Expenditure £'000	2009/10 Income £'000	2009/10 Net Expenditure £'000
1,806	Policy and Performance Review	1,977	41	1,936
3,110	Human Resources	3,394	210	3,184
2,485	Information Services	2,597	20	2,577
2,384	Law and Administration Services	2,694	146	2,548
2,320	General/Common Services	2,265	16	2,249
1,852	Administrative Buildings	1,746	32	1,714
7,326	Finance Services	7,720	182	7,538
21,283	Total Central Support Services	22,393	647	21,746

3. Service Expenditure Analysis/Standard Classification

The service analysis in the Income and Expenditure Account reflects the management structure of the Council. The following analysis, however, complies with the standard classification of income and expenditure detailed in the Best Value Accounting Code of Practice 2009.

2008/09 Net Expenditure (Restated) £'000		2009/10 Gross Expenditure £'000	2009/10 Total Income £'000	2009/10 Net Expenditure £'000
162,670	Education Services	157,923	6,633	151,290
7,620	Housing Revenue Account	49,427	45,474	3,953
13,077	Housing Services (General Fund)	42,289	38,878	3,411
16,636	Cultural and Related Services	24,639	7,823	16,816
15,459	Environmental Services	16,752	928	15,824
8,809	Fire and Rescue Services	9,414	-	9,414
13,718	Roads and Transport Services	16,089	1,528	14,561
13,943	Police Services	14,331	-	14,331
6,107	Planning and Development Services	14,554	8,986	5,568
65,903	Social Work Services	100,140	22,417	77,723
4,844	Central Services	8,719	5,284	3,435
3,080	Corporate and Democratic Core	3,085	134	2,951
635	Non-Distributed Costs	7,212	482	6,730
1,000	Exceptional Item	-	-	-
333,501	Net Cost of Services	464,574	138,567	326,007

NOTES TO THE CORE FINANCIAL STATEMENTS

4. General Fund Balance

The table below sets out details of the composition of the General Fund Balance including a range of funds which are earmarked for specific purposes.

	General (1) £'000	Housing (1) £'000	Devolved Schools (2) £'000	Economic Development (3) £'000	Central Energy Efficiency Fund (4) £'000	New Schools Project (5) £'000	Total £'000
Balance at beginning of year	(5,648)	(6,543)	(4,693)	(846)	(372)	(19,292)	(37,394)
(Surplus)/Deficit for year	665	-	-	-	-	(1,434)	(769)
Appropriation in year	(1,792)	609	1,116	54	13	-	-
Balance at end of year	(6,775)	(5,934)	(3,577)	(792)	(359)	(20,726)	(38,163)

- (1) Having regard to the Council's approved Strategy on the level and use of reserves, no General Fund Reserves have been deployed in the year 2010/11. Housing reserves of £1.1m have been deployed in 2010/11 with a further £1.4m earmarked in 2011/12 and £1m in 2012/13.
- (2) Carry forward of unutilised budgets delegated to Headteachers under the Devolved Schools Management System.
- (3) Funds arising from the development of strategic business parks.
- (4) Fund to develop energy efficient initiatives in Council buildings.
- (5) Funds to pay a capital injection to the New Schools Project in 2011 built up as a consequence of savings in principal repayments which were funded from Capital Fund. This was originally budgeted in Service expenditure.

5. PFI Schemes and Similar Contracts

	Class 98 £'000	Falkirk Schools Gateway Ltd £'000	2009/10 £'000
(a) Movement in Assets			
Balance as at 1 April 2009 (restated)	123,846	59,788	183,634
Net Additions during year	1,015	57,030	58,045
Revaluation	(19,963)	3,978	(15,985)
Depreciation	(2,795)	(1,407)	(4,202)
Net Book Value 31 March 2010	102,103	119,389	221,492
(b) Movement in Liabilities			
Balance as at 1 April 2009 (restated)	53,853	56,277	110,130
Additions during year	-	57,030	57,030
Repaid during year	(1,562)	(371)	(1,933)
Balance as at 31 March 2010	52,291	112,936	165,227
of which			
Current	1,746	12,474	14,220
Long Term	50,545	100,462	151,007
	52,291	112,936	165,227

	Service Charges £'000	Lifecycle Replacement £'000	Interest £'000	Finance Lease Repayment £'000	2009/10 £'000
(c) Estimated Future Unitary Payment Obligations					
<u>Basic Annual Payments – Class 98</u>					
Within one year	2,290	1,060	7,702	1,746	12,798
In the second to fifth years inclusive	9,415	4,919	28,996	8,129	51,459
In the sixth to tenth years inclusive	12,029	7,117	31,916	14,817	65,879
In the eleventh to fifteenth years inclusive	12,006	5,018	24,555	25,365	66,944
In the sixteenth year	780	-	1,475	2,234	4,489
	36,520	18,114	94,644	52,291	201,569

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 3% per annum as per the operator's financial model.

NOTES TO THE CORE FINANCIAL STATEMENTS

	Service Charges £'000	Lifecycle Replacement £'000	Interest £'000	Finance Lease Repayment £'000	2009/10 £'000
<u>Basic Annual Payments – Falkirk Schools Gateway Ltd</u>					
Within one year	3,130	-	6,853	474	10,457
In the second to fifth years inclusive	13,082	662	23,092	7,670	44,506
In the sixth to tenth years inclusive	17,960	2,519	29,933	11,774	62,186
In the eleventh to fifteenth years inclusive	20,321	6,792	30,512	12,732	70,357
In the sixteenth to twentieth years inclusive	22,991	11,536	30,946	14,130	79,603
In the twenty first to twenty fifth years inclusive	26,012	16,725	30,858	16,469	90,064
In the twenty sixth to twenty ninth year inclusive	25,829	2,964	33,153	25,687	87,633
	129,325	41,198	185,347	88,936	444,806

The figures shown above for the Basic Annual Payment assume an indexation rate of 2.5% per annum as per the operator's financial model.

6. Leasing

Operating leases charged to the Income and Expenditure Account in the year totalled £3.3m (2008/09 £3.9m). The leases in 2009/10 can be broken down as follows:-

2008/09 £'000			2009/10 £'000
2,409	Operating Lease rentals paid to lessors	- HRA	1,938
319		- Vehicles, Plant and Equipment	123
1,199		- Investment	1,199
3,927			3,260

The Council has the following commitments falling due in the next twelve months:-

	HRA £'000	Plant and Vehicles £'000	Land and Buildings £'000	Total £'000
Commitment Expires				
Within one year	389	-	-	389
Between two to five years	1,384	-	-	1,384
Over five years	165	-	1,199	1,364
	1,938	-	1,199	3,137

The Council received income of £4.398m in 2009/10 (£4.396m in 2008/09) from our operating leases related to land and buildings. The gross value of these leased assets was £69.793m. These assets are classed as Investment Properties and as such are not depreciated. The Council does not currently hold any assets for the purpose of letting under a Finance lease.

7. 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 for this service in 2009/10 was £467,440 (£374,831 in 2008/09).

8. Members' Remuneration

Remuneration paid to Members in 2009/10 was as follows:

2008/09 £'000		2009/10 £'000
591	Salaries	602
18	Allowances (Mileage)	12
8	Expenses	3
617		617

NOTES TO THE CORE FINANCIAL STATEMENTS

9. Officers' Emoluments

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 were:-

Number of Employees 2008/09	Remuneration band	Number of Employees 2009/10
41	£50,000 - £59,999	59
19	£60,000 - £69,999	20
6	£70,000 - £79,999	8
4	£80,000 - £89,999	1
2	£90,000 - £99,999	5
2	£100,000 - £109,999	1
-	£110,000 - £119,999	-
1	£120,000 - £129,999	1
75		95

10. 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.

Material transactions with related parties, not disclosed elsewhere, were as follows:

			Receipts £'000	Payments £'000
Government Agencies	Scottish Enterprise	Revenue grants	856	
	NHS Forth Valley	Resource Transfer	10,703	
	European Funding	Revenue grants	23	
	Communities Scotland	Revenue grants	1,022	
	S.E. Scotland Transport Partnership		2	32
Falkirk and District Business Park	Income and expenses from rental of commercial premises		195	78
Falkirk and District Town Centre Management Ltd	Promotion of Town Centres			205
Pension Fund	Charge for Support Services		500	
Falkirk Community Stadium Ltd	Repayment of expenses and Professional Fees		301	
Fairer Scotland Fund	Contribution to project costs per funding agreements			910
Family Centres	Funding provided per Service Level Agreement			743

Amounts due to or from related parties were as follows:

2008/09			2009/10	
Amount Due From £'000	Amount Due to £'000		Amount Due From £'000	Amount Due To £'000
4,395	7,897	Central Government	2,964	6,451
1,283	259	Government Agencies	1,345	170
109	41	Joint Boards	104	38
261	-	Falkirk and District Business Park Ltd	118	62
1,081	1	Falkirk Community Stadium Ltd	1,160	2
1	5	Falkirk and District Town Centre Management Ltd	-	2
-	-	Helix Trust	43	-

NOTES TO THE CORE FINANCIAL STATEMENTS

11. External Audit Fee

The agreed external audit fee for 2009/10 was £391,000 for work undertaken in accordance with the Code of Audit Practice (£382,000 in 2008/09). No other services were provided by Audit Scotland.

12.(a) 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 results for the previous 2 financial years for the Statutory Trading Accounts as well as the current year are shown below. 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 2 Statutory Trading Accounts, one for Building Maintenance and one for Roads Maintenance.

BUILDING MAINTENANCE TRADING ACCOUNT

Actual Year to 31/03/08 £'000	Actual Year to 31/03/09 £'000		Actual Year to 31/03/10 £'000	3 Year Total £'000
21,151	23,517	Turnover	25,507	70,175
19,632	22,617	Expenditure	24,070	66,319
1,519	900	Surplus per Income and Expenditure Account	1,437	3,856
13	(79)	Interest	(56)	(122)
1,532	821	Surplus for Financial Return Purposes	1,381	3,734

The Building Maintenance Division is primarily responsible for providing a repairs and maintenance service for the Council's housing stock, which at 31 March 2010 amounted to 16,164 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 and Receivable in the Income and Expenditure Account.

ROADS MAINTENANCE TRADING ACCOUNT

Actual Year to 31/03/08 £'000	Actual Year to 31/03/09 £'000		Actual Year to 31/03/10 £'000	3 Year Total £'000
10,751	10,048	Turnover	10,517	31,316
10,265	9,244	Expenditure	9,705	29,214
486	804	Surplus per Income and Expenditure Account	812	2,102
(63)	(72)	Interest	(47)	(182)
423	732	Surplus for Financial Return Purposes	765	1,920

The Roads Division is primarily responsible for providing a maintenance service for the non-motorway roads and footpaths in the Council area. In addition, the Division is also responsible for providing a winter maintenance service for the roads and footpaths, various small works on behalf of other Council Services and the construction of new roads and footpaths. The total length of roads maintained is 933.2 kilometres.

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

12.(b) Other Trading Accounts

The Council also maintains trading accounts for the following operations which are not included in the Net Cost of General Fund Services.

Surplus/ (Deficit) 2008/09 £'000		Turnover 2009/10 £'000	Expenditure 2009/10 £'000	Surplus/ (Deficit) 2009/10 £'000
109	Schools and Welfare Catering	4,090	3,826	264
277	Building Cleaning	3,685	3,338	347
386	Total per Income and Expenditure Account	7,775	7,164	611

NOTES TO THE CORE FINANCIAL STATEMENTS

13. Pension Costs

As part of the terms and conditions of employment, the Authority 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 Authority participates in two pension schemes:

- The Local Government Pension Scheme

The scheme is administered by the Council and provides defined benefits for non-teaching employees. 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 6% of pensionable pay. However, from 1 April 2009 a system of variable employee contributions was introduced. Employer contributions are set every three years following a valuation of the Fund by an independent actuary.

- 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 is 6.4%. 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.

In addition to the above schemes, the Council has powers to grant additional benefits under Discretionary Payments Regulations relating to teaching and non-teaching employees. Typically, 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.

During the year, the Council paid requisitions to Central Scotland Joint Police Board and Central Scotland Joint Fire and Rescue Board. These requisitions have been used to meet, inter alia, the costs arising from the Police Pensions Schemes and the Firefighters Pension Schemes.

Local Government Pension Scheme and Discretionary Benefits

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 cost of the retirement benefit is charged to the Income and Expenditure Account and reversed out of the General Fund via the Statement of Movement in General Fund Balance.

(i) Recognition in the Income and Expenditure Account

Year Ended:	31/03/09	31/03/10
	£'000	£'000
Current Service Cost	12,529	10,954
Interest Cost	29,293	28,608
Expected Return on Employer Assets	(26,105)	(18,348)
Past Service Costs/(Gains)	798	7,011
Losses/(Gains) on Curtailments and Settlements	-	-
Total	16,515	28,225

(ii) Reconciliation of defined benefit obligation

Year Ended:	31/03/09	31/03/10
	£'000	£'000
Opening Defined Benefit Obligation	423,666	410,684
Current Service Cost	12,529	10,954
Interest Cost	29,293	28,608
Contributions by Members	5,328	5,782
Actuarial Losses/(Gains)	(44,648)	237,704
Past Service Costs/(Gains)	798	7,011
Estimated Unfunded Benefits Paid	(2,172)	(2,587)
Estimated Benefits Paid	(14,110)	(13,174)
Closing Defined Benefit Obligation	410,684	684,982

NOTES TO THE CORE FINANCIAL STATEMENTS

(iii) **Reconciliation of fair value of employer assets**

Year Ended:	31/03/09	31/03/10
	£'000	£'000
Opening Fair Value of Employer Assets	364,555	286,577
Expected Return on Assets	26,105	18,348
Contributions by Members	5,328	5,782
Contributions by the Employer	15,656	16,924
Contributions in respect of Unfunded Benefits	2,172	2,587
Actuarial Gains/(Losses)	(110,957)	81,272
Estimated Unfunded Benefits Paid	(2,172)	(2,587)
Estimated Benefits Paid	(14,110)	(13,174)
Closing Fair Value of Employer Assets	286,577	395,729

(iv) **Amounts for the current and previous accounting periods**

Year Ended:	31/03/06	31/03/07	31/03/08	31/03/09	31/03/10
	£'000	£'000	£'000	£'000	£'000
Fair Value of Employer Assets	338,480	365,463	364,555	286,577	395,729
Present Value of Defined Benefit Obligation	(479,098)	(476,934)	(423,666)	(410,684)	(684,982)
Surplus/(Deficit)	(140,618)	(111,471)	(59,111)	(124,107)	(289,253)
Experience Gains/(Losses) on Assets	46,130	(2,965)	(36,383)	(110,957)	81,272
Experience Gains/(Losses) on Liabilities	(7,165)	501	2,988	2,378	(2,223)
Experience Gains/(Losses) as % of Schemes Assets	13.63%	(0.81)%	(9.98)%	(38.72)%	20.54%
Experience Gains/(Losses) as % of Schemes Liability	1.50%	(0.11)%	(0.71)%	(0.58)%	0.32%

(v) **Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)**
Cumulative Actuarial Gains and Losses

Year Ended:	31/03/06	31/03/07	31/03/08	31/03/09	31/03/10
	£'000	£'000	£'000	£'000	£'000
Actuarial (Gains) and Losses	15,211	(31,390)	(54,831)	66,309	156,432
Cumulative Actuarial (Gains) and Losses	39,950	8,560	(46,271)	20,038	176,470

Note 31 contains details of the assumptions made in estimating the figures included in this note. The Pensions Reserve is included in Note 30 which details movement in reserves.

Teachers

During the year, the Council paid £8.787 million (£7.752m in 2008/09) to the Scottish Government in respect of teachers' pension costs. This represents 14.9% of teachers' pensionable pay (13.5% in 2008/09).

The Council is also required to meet the costs of benefits arising from compensatory added years (including any related increases), as well as the costs arising from the early release of benefits in the Teachers Pension Scheme. In 2009/10, these amounted to £0.93 million, representing 1.6% of pensionable pay (£0.94 million, representing 1.6% of pensionable pay in 2008/09).

NOTES TO THE CORE FINANCIAL STATEMENTS

14. Note of reconciling items for the Statement of Movement on the General Fund Balance

2008/09 (Restated) £'000	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	2009/10 £'000
(77)	Amortisation of intangible fixed assets	(127)
(54,684)	Depreciation and impairment of fixed assets	(35,733)
1,112	Government Grants Deferred amortisation	1,267
4,455	Net gain on sale of fixed assets	3,004
349	Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	332
(16,515)	Net charges made for retirement benefits in accordance with FRS17	(28,225)
(65,360)		(59,482)
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year	
1,670	Repayment of Finance Lease Liability	3,030
14,324	Statutory repayment of debt	16,142
3,554	Capital expenditure charged in-year to the General Fund Balance	3,600
17,827	Employer's contribution payable to the Local Government Pension Fund and retirement benefits payable direct to pensioners	19,511
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
151	Transfer to/(from) the Insurance Fund	108
(426)	Transfer to/(from) the Repairs and Renewal Fund	(1,044)
(3,698)	Transfer to/(from) the Capital Receipts Reserve	(1,337)
(31,958)	Net additional amount required to be credited to the General Fund balance for the year	(19,472)

15. Commitments under Capital Contracts

As at 31 March 2010, the Council has legal commitments on capital contracts for non-housing and housing projects of £6m (2008/09 £4.5m) and £5.9m (2008/09 £2.8m) respectively.

NOTES TO THE CORE FINANCIAL STATEMENTS

16.(a) Analysis of Movement in Fixed Assets and Intangible Assets during 2009/10

	Intangible Assets £'000	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra- Structure £'000	Community Assets £'000	Investment Properties £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000
Gross Book Value (Restated)	455	88,762	566,551	13,927	85,557	2,610	95,628	4,077	1,419	858,986
Accumulated Depreciation 31 March 2009 (Restated)	(196)	-	(81,512)	(5,567)	(14,983)	(961)	11	-	(23)	(103,231)
Net Book Value	259	88,762	485,039	8,360	70,574	1,649	95,639	4,077	1,396	755,755
Revaluations	-	-	3,978	-	-	-	-	-	63	4,041
Impairments	-	(13,855)	(21,420)	-	-	-	-	-	(799)	(36,074)
Additions	59	13,855	67,516	3,921	8,637	-	4,476	4,332	-	102,796
Transfer	-	-	(21,073)	-	-	-	-	(3,462)	24,535	-
Net Enhancement	59	-	29,001	3,921	8,637	-	4,476	870	23,799	70,763
Asset Disposals	-	(454)	-	(32)	-	-	(202)	-	(54)	(742)
Disposal Depreciation	-	-	-	32	-	-	-	-	-	32
Depreciation for Year	(127)	-	(15,509)	(1,763)	(2,676)	(65)	-	-	-	(20,140)
Valuation 31 March 2010	191	88,308	498,531	10,518	76,535	1,584	99,913	4,947	25,141	805,668

Note

Total additions per note 16(a) above, £102.796m, analysed as follows:

PFI Schemes brought on Balance Sheet under IFRS	£58.045m
New Assets as a result of reconstruction of FCSL	£3.850m
Additions financed by Capital Expenditure	£40.901m
Total Additions	£102.796m

NOTES TO THE CORE FINANCIAL STATEMENTS

- (i) The following depreciation methods have been used:
- Council Dwellings. There has been no depreciation charged on Council Dwellings. The District Valuer has confirmed that the 'Existing Use Value' (Social Housing) valuation method adopted in terms of the 2009 Code of Practice results in a particularly high residual value, which in turn renders depreciation immaterial.
- 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.
- Investment Properties - these are not depreciated.
- Assets Under Construction – these are not depreciated.

	2008/09 (Restated) £'000		2009/10 £'000
(ii)	85,117	Accumulated Depreciation at start of year	103,231
	18,235	Total Depreciation during year	20,140
	(121)	Depreciation Adjustment for disposals	(32)
	103,231	Accumulated Depreciation at end of year	123,339

- (iii) Analysis of net fixed assets over funds as at 31 March 2010

			2009/10
	651,815	General	702,126
	103,681	HRA	103,351
	755,496	TOTAL	805,477

- (iv) Assets owned by the Council include:

			Estimated Life (Buildings)
	2008/09 (Restated)	2009/10	
	16,247	16,164	30 years
	20	20	Investment
	10	10	4 – 34 years
	2	2	Investment
	11	11	14 – 34 years
	49	49	4 – 39 years
	10	12	1 – 40 years
	4	4	9 – 24 years
	6	6	9 – 34 years
	9	9	14 – 39 years
	8	8	4 – 39 years
	3	3	18 – 98 years
	3	3	19 – 29 years
	35	35	4 – 39 years
	1	1	29 years
	171	173	
	279	279	
	837	841	4 – 64 years

NOTES TO THE CORE FINANCIAL STATEMENTS

16.(b) Valuation Disclosure

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

The Housing Stock has been valued as at 1 April 2005, using the 'Existing Use Value' (Social Housing) method.

Other land and buildings owned by Community Services and Social Work (excluding offices) have been valued as at 1 April 2007. Other feuhold and leasehold properties which comprise the Authority's property portfolio, have been valued as at 1 April 2008 on the undernoted bases in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual by an external independent valuer, Mr A B Rintoul, BA (Hons) MRICS, former District Valuer, of the Scotland South East Valuation Office Agency appointed by Falkirk Council.

Other Land and Buildings were valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, depreciated replacement cost. Plant and Machinery contained within buildings is included in the valuation of those buildings.

Vehicles, Plant and Equipment are valued on the basis of open market value by the Council's technical staff.

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

Properties regarded by the Authority as Investment have been valued on the basis of open market value. This valuation was carried out as at 1 April 2006 by an External Independent Valuer. Mr A B Rintoul, BA (Hons) MRICS, former District Valuer of the Scotland South East Valuation Office Agency appointed by Falkirk Council. A review of impairment for investment properties was carried out as at 1 April 2008.

Surplus Assets have been valued on the basis of open market value and Assets Under Construction are valued at cost.

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

The Council is not aware of any material change in the value of fixed assets.

16.(c) Capital Expenditure

2008/09 £'000		2009/10 £'000
149	Intangible Assets	59
42,012	Fixed Assets	40,842
42,161	TOTAL	40,901
Funded by:		
2008/09 £'000		2009/10 £'000
6,006	Sale of Council Dwellings	3,342
32	Sale of Vehicle, Plant and Equipment	4
9,261	Grants and Other Contributions	12,043
585	Other Capital Receipts	2,077
15,884	Capital Receipts Applied	17,466
3,262	Capital Financed from Current Revenue	3,600
23,015	Loans Fund	19,835
42,161	TOTAL FUNDING	40,901

16.(d) As at 31 March 2010, assets under construction include:

	£'000
Town Centre Regeneration Project	458
Helix	1,410
Bankier Sports Facility	138
Phase 1 Central Business Park	730
Bo'ness Recreation Centre	413
Social Work Integrated Team Base (Camelon)	907
Antonshill Primary School	359
	4,415

NOTES TO THE CORE FINANCIAL STATEMENTS

17. Net Assets

An analysis of Net Assets shown in the Balance Sheet is given below:

2008/09		2009/10
(Restated)		
£'000		£'000
250,026	General Fund	63,610
75,361	Housing Revenue Account	73,235
325,387		136,845

18. Long-Term Investments

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 £3.110m 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 £2.000m on 31 March 2003, £2.795m on 22 December 2004 and £0.300m 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 have been replaced by Fixed Assets of £3.850m and a Long Term Investment of £9.340m. The newly acquired assets comprise Ground Leases of £0.250m and Development Sites of £3.600m.

NOTES TO THE CORE FINANCIAL STATEMENTS

19. Loans Outstanding

These loans were raised to finance the capital expenditure of the Council. The source of these loans at 31 March 2010 was as follows:

2008/09 (Restated) £'000	BORROWING REPAYABLE ON DEMAND OR WITHIN 12 MONTHS	2009/10 £'000
3,711	Temporary Borrowing	13,787
12,950	Other Loans	503
16,661		14,290
2,159	Accrued Interest	2,155
18,820		16,445
	LONG TERM	
91,631	Public Works Loan Board	111,630
1,606	European Investment Bank	1,116
27,769	Market Bonds	27,733
121,006		140,479

20. Insurance Fund

An updated independent actuarial valuation of the Insurance Fund was undertaken in September 2009. 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 2010 is £3.018m. (£2.910m as at 31 March 2009).

21. Provisions

At the year end, there were a significant number of equal pay claims being considered in conjunction with the Council's legal advisers. The actual cost of these claims are unknown at this time, however, provision of £5m has been made in the 2009/10 accounts.

22. Long-Term Debtors

	Balance 01/04/09 £'000	Advanced 2009/10 £'000	Capitalised Interest 2009/10 £'000	Repaid 2009/10 £'000	Balance 31/03/10 £'000
Northfield Quarry	2,041	-	-	(106)	1,935
Loan Arrears	5	-	-	(1)	4
General Fund Housing	119	-	-	(30)	89
Car Loans	153	121	-	(144)	130
FCSL	6,114	-	117	(6,231)	-
Total	8,432	121	117	(6,512)	2,158

NOTES TO THE CORE FINANCIAL STATEMENTS

23. Stocks and Work in Progress

An analysis of stocks as at 31 March 2010 is shown below with the basis of valuation:-

2008/09 £'000	Stocks	2009/10 £'000	Basis of Valuation
	<u>Commercial Services</u>		
280	Building Maintenance	236	latest invoice price
47	Transport	59	average cost
108	Cleansing	75	lower of cost and net realisable value/average cost
63	Grounds Maintenance	60	lower of cost and net realisable value
54	Catering	63	lower of cost and net realisable value/average cost
43	Street Lighting	44	latest invoice price
97	Sign Factory	94	lower of cost and net realisable value
15	Pest Control	10	lower of cost and net realisable value
	<u>Community Services</u>		
39	Leisure Facilities	44	lower of cost and net realisable value/ latest invoice price
16	Museums	17	lower of cost and net realisable value/latest invoice price
	<u>Development Services</u>		
62	Strategic Waste	51	latest invoice price
5	<u>Housing</u>	3	latest invoice price
8	<u>Central Support Services</u>	9	latest invoice price
837		765	The use of other than lower of cost and net realisable value is a departure from the SORP but is not considered material.
	Work in Progress		
9	Sign Factory	5	
9	TOTAL	5	
846	TOTAL STOCKS & WORK IN PROGRESS	770	

24. Debtors

2008/09 (Restated) £'000		2009/10 £'000
-	Scottish Government – Non-Domestic Rates	309
6,598	Council Tax	7,117
16,032	Sundry Debtors	18,851
1,515	House Rents	1,617
1,533	HMRC- VAT	2,139
25,678		30,033
(10,089)	Provision for Bad Debts	(11,050)
15,589	TOTAL DEBTORS	18,983

25. Creditors

2008/09 (Restated) £'000		2009/10 £'000
5,924	PAYE/National Insurance, Pensions	7,171
1,396	Scottish Government – Non-Domestic Rates	-
993	Council Tax	938
33,137	Other Creditors	28,791
41,450	TOTAL CREDITORS	36,900

NOTES TO THE CORE FINANCIAL STATEMENTS

26. Contingent Liabilities

- (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 2010, this totalled £58m. (£62.2m as at March 2009).
- (ii) Note 21 includes provision of £5m in respect of potential expenditure arising from outstanding equal pay claims. A recent legal judgement (Bainbridge) on pay protection 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. The Council has been given permission to borrow c£5.6m in respect of the estimated total liability likely to arise from equal pay claims.

27. Post Balance Sheet Events

The audited accounts were authorised by the Director of Finance for issue on 30 September 2010. There were no events that occurred between 1 April and 30 September 2010 that would have an impact on the 2009/10 financial statements.

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail price index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the Fund by around 6-8%.

28. Trust Funds

The Council administers and acts as trustees, where applicable, to a number of Third Party Funds. 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 purposes of the largest General Trust Funds held by Falkirk Council are:

Provost's Fund for Necessitous Poor (£53,912) - to provide donations to residents of the former Burgh of Falkirk at the sole discretion of the Provost.

Scottish Veterans' Garden City Association (SVGCA) (£48,689) - to manage the Association's housing in the Falkirk Council area.

Shank's Bequest (£27,772) - to provide donations to the needy of Denny.

Grangemouth Childrens' Day Committee (£32,319) - to provide a donation to the annual cost of the Grangemouth Childrens' Day.

Candyend Trust (£70,300) - to provide donations to specific organisations assisting the elderly in the Muiravonside area.

Odenwald Trust (£27,090) - to foster twinning exchanges between the Council and the Odenwald region in Germany.

Alexander Douglas King Bequest (£37,822) – new bequest for the promotion and advancement of education of art at Bo'ness Academy.

The funds do not represent assets of the Council and are not included in the Council's Balance Sheet. The financial position of all funds are as follows:-

2008/09 £'000	Income and Expenditure Account	2009/10 £'000
	Income	
(23)	Investment Income	(43)
	Expenditure	
3	Awards and Other Expenses	19
(20)	Surplus for the Year	(24)
	Balance Sheet	
	Fixed Assets	
19	External Investments	19
340	Internal Investments	364
359	Net Assets	383
(339)	Fund Balance at 1 April 2009	(359)
(20)	Surplus for Year	(24)
(359)	Fund Balance at 31 March 2010	(383)

NOTES TO THE CORE FINANCIAL STATEMENTS

29. Deferred Government Grants Reserve

	Balance as at 01/04/09 £'000	Amortisation £'000	Receipts £'000	Balance as at 31/03/10 £'000
Government Grants	21,705	(1,116)	13,260	33,849
Other Contributions	6,469	(151)	6,335	12,653
	28,174	(1,267)	19,595	46,502

Other capital contributions include amounts paid to the Council by developers as a result of the granting of planning permission where works are required to be carried out or new facilities provided as a result of that permission. The sums are restricted to being spent only in accordance with the agreement concluded with the developer. The balance also includes £3.850m of donated assets arising from the restructuring of Falkirk Community Stadium Ltd.

NOTES TO THE CORE FINANCIAL STATEMENTS

30. Movement in Reserves

This statement shows the movement in the Council's reserves during the financial year.

	CAPITAL RESERVES			REVENUE RESERVES			Financial Instruments Adj Account £'000	TOTAL £'000
	Revaluation Reserve £'000	Capital Adjustment Account £'000	Capital Receipts Reserve £'000	General Fund £'000	Specific Reserves £'000	Pensions Reserve £'000		
Balance as at 1 April 2009 (restated)	169,610	241,336	3,631	37,394	5,244	(124,107)	(7,721)	325,387
Surplus/(deficit) for Year	-	-	-	(18,703)	-	(156,432)	-	(175,135)
Revaluations	4,040	-	-	-	-	-	-	4,040
Depreciation Adj for Revaluation	(3,966)	3,966	-	-	-	-	-	-
Impairments	(20,461)	(15,613)	-	15,720	-	-	-	(20,354)
Depreciation	-	(20,013)	-	20,013	-	-	-	-
Amortisation of Intangible Assets	-	(127)	-	127	-	-	-	-
Government Grants Deferred Amortisation	-	1,267	-	(1,267)	-	-	-	-
Capital Receipts Received	-	-	6,728	-	-	-	-	6,728
Capital Receipts Applied	-	5,423	(5,423)	-	-	-	-	-
NBV of Asset Disposals	(54)	(657)	-	-	-	-	-	(711)
Net Gain on Sale of Fixed Assets	-	-	-	(3,004)	-	-	-	(3,004)
Repayment of Finance Lease Liability	-	3,030	-	(3,030)	-	-	-	-
Statutory Repayment of Debt	-	16,142	-	(16,142)	-	-	-	-
Capital Funded from Revenue	-	3,600	-	(3,600)	-	-	-	-
Finance Costs	-	-	-	(332)	-	-	332	-
Employers Contribution	-	-	-	(19,511)	-	19,511	-	-
Net FRS17 Charges	-	-	-	28,225	-	(28,225)	-	-
Appropriation to Insurance Fund	-	-	-	(108)	108	-	-	-
Appropriation from R and R Fund	-	-	-	1,044	(1,044)	-	-	-
Appropriation from Capital Receipts Reserve	-	-	(1,337)	1,337	-	-	-	-
Long Term Debtor	-	(106)	-	-	-	-	-	(106)
Balance as at 31 March 2010	149,169	238,248	3,599	38,163	4,308	(289,253)	(7,389)	136,845

Further breakdown of Specific Revenue Reserves

	Opening Balance 01/04/09 £'000	Transfer to/(from) General Fund 2009/10 £'000	Closing Balance 31/03/10 £'000	
Repairs and Renewals Fund	(2,334)	1,044	(1,290)	
Insurance Fund	(2,910)	(108)	(3,018)	(See Note 20)
Total	(5,244)	936	(4,308)	

NOTES TO THE CORE FINANCIAL STATEMENTS

31. Accounting for Retirement Benefits - Disclosure of net pensions asset/liability

Note 13 contains details of the Council's participation in the Local Government Pension Scheme and the Teachers' Pension Scheme.

Local Government Pension Scheme and Discretionary Benefits

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March 2010 are as follows:

	31/03/09 £'000	31/03/10 £'000
Net asset/liability	(124,107)	(289,253)

The real discount rate has decreased significantly from 3.7% per annum as at 31 March 2009 to 1.6% per annum as at 31 March 2010. This is due to a fall in corporate bond yields over the year combined with an increase in the level of inflation expectations. All else being equal, a lower real discount rate leads to a higher value being placed on the liabilities. Therefore, the change in real discount rate between March 2009 and March 2010 has a substantial negative impact on the Balance Sheet, increasing the value of the liabilities depending on the average age of membership.

In summary, there is a significant deterioration in the Balance Sheet this year, with FRS17 liabilities larger in monetary terms than last year. This is because of the impact of unfavourable financial assumptions coupled with stronger post retirement mortality assumptions, which serve to outweigh, the more favourable asset returns over the year.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. In particular, the deficit arising from the Local Government Pension Scheme will be made good by increased contributions over a period of 20 years, as determined by the scheme actuary.

Liabilities have been assessed on an actuarial basis using the projected unit method. This provides an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Hymans Robertson, an independent firm of actuaries, has assessed the liabilities arising from discretionary benefits and the Council's participation in the Local Government Pension Scheme based on the triennial valuation of the Scheme as at 31 March, 2008.

Fair Value of employer assets

Year Ended:	31/03/09 £'000	31/03/10 £'000
Equities	192,007	304,711
Bonds	45,852	51,445
Property	25,792	27,701
Cash	22,926	11,872
Total	286,577	395,729

The main assumptions used in their calculations have been: -

Financial assumptions

Year Ended:	31/03/09 % p.a.	31/03/10 % p.a.
Inflation/Pension Increase Rate	3.1	3.8
Salary Increase Rate	4.6	5.3
Expected Return on Assets	6.3	7.2
Discount Rate	6.9	5.5

Breakdown of the expected return on assets by category

Year Ended:	31/03/08 % p.a.	31/03/10 % p.a.
Equities	7.0	7.8
Bonds	5.4	5.0
Property	4.9	5.8
Cash	4.0	4.8

NOTES TO THE CORE FINANCIAL STATEMENTS

Mortality

Life expectancy is based on the PFA92 and PMA92 mortality tables published by the Institute of Actuaries and the Faculty of Actuaries. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.6 years	25.0 years
Future Pensioners	23.1 years	26.6 years

Current pensioners life expectancy shown is based on age 65 as at formal valuation, i.e. Year of Birth 1943. Future pensioners are assumed to be age 50 as at 31 March 2010.

Commutation

An allowance is included for 50% of future retirements to elect to take 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 2011

The following table sets out the estimation of the pension cost for 2010/11, based on the assumptions as at 31 March 2010 (the start of the period).

Analysis of projected amount to be charged to operating profit for the year to 31 March 2011

Year Ended:	£'000
Projected Current Service Cost	22,861
Interest on Obligation	37,976
Expected Return on Plan Assets	(28,779)
Past Service Cost	-
Total	32,058

The estimated Employer's contributions for the year to 31 March 2011 will be approximately £17.207m.

1 April 2009 marked the introduction of the new Local Government Pension Scheme and with it some new benefits have been applied retrospectively. The estimated projected past service cost for 2010/11 incorporates the impact of these changes.

Teachers' Pension Scheme

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

The Scheme is a defined benefit scheme, administered by the Scottish Public Pensions Agency (SPPA). Although the scheme is unfunded, SPPA uses a notional fund as the basis for calculating the employers' contributions rate to be paid by local authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme. This is a departure from UK GAAP.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the Teachers' Scheme. These benefits are fully accrued in the pensions liability described above and in Note 13.

NOTES TO THE CORE FINANCIAL STATEMENTS

32. Reconciliation Between Cash Flow Statement and Income and Expenditure Account

2008/09 Restated £'000		2009/10 £'000
30,980	(Surplus)/Deficit for Year	18,703
	NON-CASH TRANSACTIONS	
(1,926)	: Increase/(Decrease) in Revenue Debtors	1,627
(1,472)	: (Increase)/Decrease in Revenue Creditors	14,185
(46)	: (Decrease) in Stock	(76)
(54,761)	: Depreciation and Impairment	(35,860)
1,112	: Deferred Grants Amortised in Year	1,267
1,312	: Pension Fund Adjustments	(8,714)
(1,000)	: Provision for Equal Pay	-
1,635	: Other Non-Cash Financial Instrument Adjustments	(309)
<u>(55,146)</u>		<u>(27,880)</u>
	ITEMS CLASSIFIED ELSEWHERE	
5,045	Interest and Investment Income	448
(21,591)	Interest Payable	(21,903)
4,455	Gain on Disposal of Fixed Assets	3,004
<u>(12,091)</u>		<u>(18,451)</u>
<u>(36,257)</u>	NET CASH FLOW FROM REVENUE ACTIVITIES	<u>(27,628)</u>

33. Reconciliation Between Cash Flow Statement and Balance Sheet

Balance at 31/03/09 £'000		Balance at 31/03/10 £'000	Movement £'000
	a) MOVEMENT IN CASH		
(173)	Bank Overdraft	(233)	60
38	Imprest Advances	41	(3)
<u>(135)</u>		<u>(192)</u>	<u>57</u>
	b) MOVEMENTS IN FINANCING		
(123,148)	Long Term Borrowing	(140,479)	(17,331)
(16,678)	Borrowing Repayable on Demand or within 12 months	(16,445)	233
3,915	Less: Non-Cash Items	3,888	(27)
<u>(135,911)</u>		<u>(153,036)</u>	<u>(17,125)</u>
	c) MOVEMENT IN LIQUID RESOURCES		
2,695	Short Term Investments	7,567	4,872
(382)	Less: Non-Cash Items	-	382
<u>3,077</u>		<u>7,567</u>	<u>4,490</u>

Liquid resources comprise short-term investments in the form of temporary deposits held with UK banks and building societies.

NOTES TO THE CORE FINANCIAL STATEMENTS

34. Reconciliation of Movement in Cash to the Movement in Net Debt

Analysis of Movement in Net Debt

	As at 01/04/2009	Cash Flows	As at 31/03/2010
Bank Overdraft	(173)	(60)	(233)
Cash in Hand	38	3	41
	<u>(135)</u>	<u>(57)</u>	<u>(192)</u>
Short Term Investments	2,695	4,872	7,567
Borrowing Due Within One Year	(16,678)	233	(16,445)
Long Term Borrowing	(123,148)	(17,331)	(140,479)
Total	<u>(137,266)</u>	<u>(12,283)</u>	<u>(149,549)</u>

Reconciliation of Net Cash Flow to Movement in Net Debt

Decrease in Cash	(57)
Cash Outflows from Management of Liquid Resources	4,872
New Loans Raised	(96,720)
Loans Repaid	79,595
Non-Cash Transactions	27
Change in Net Debt	<u>(12,283)</u>
Net Debt as at 1 April 2009	<u>(137,266)</u>
Net Debt as at 31 March 2010	<u>(149,549)</u>

35. Analysis of Government Grants in the Cash Flow Statement

2008/09 £'000		2009/10 £'000
792	Strategic Waste Fund	-
2,346	Criminal Justice	2,400
510	Council Tax DWP Subsidy	491
23,348	DWP Subsidy Public Sector	24,307
240	Social Inclusion	-
579	Education Maintenance Allowances	598
254	Determined to Succeed	532
843	Fairer Scotland Fund	1,955
546	Improvement Repair Grant	880
505	Hostels Grant	663
3,655	Other Grants	2,614
<u>33,618</u>	TOTAL	<u>34,440</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

36.(a) Financial Instruments Adjustment Account

	2008/09 £'000	2009/10 £'000
De-recognition of Premiums from Debt Restructuring	6,328	5,994
Annual Amortisation	(334)	(316)
	5,994	5,678
De-recognition of Discounts from Debt Restructuring	(303)	(296)
Annual Amortisation	7	7
	(296)	(289)
Re-measurement of Market LOBO's	2,044	2,023
Annual Amortisation	(21)	(23)
	2,023	2,000
	7,721	7,389

Disclosure of Financial Assets and Liabilities from 1 April 2009

36.(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	
	31/03/09 £'000	31/03/10 £'000	31/03/09 £'000	31/03/10 £'000
Financial liabilities (principal amount)	119,249	138,746	16,661	14,290
Financial liabilities at amortised cost	123,147	140,479	16,678	16,445
Loans and receivables (principal amount)	6,114	-	2,687	7,558
Loans and receivables at amortised cost	6,114	-	2,695	7,567
Unquoted investments at cost	3,110	9,340	-	-

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

The gains and losses recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets	
	Liabilities Measured at Amortised Cost £'000	Loans and Receivables £'000	Total £'000
Interest Expense	(8,259)	-	(8,259)
Interest Income	-	448	448
Net gain/(loss) for the year	(8,259)	448	(7,811)

NOTES TO THE CORE FINANCIAL STATEMENTS

36.(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. 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:

	31/03/09		31/03/10	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
PWLB debt	106,006	148,589	113,483	150,004
Non-PWLB debt	33,819	36,748	43,441	43,376
Total debt	139,825	185,337	156,924	193,380
Trade creditors	5,551	5,551	5,069	5,069
Total Financial Liabilities	145,376	190,888	161,993	198,449

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.

	31/03/09		31/03/10	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Money market deposits < 1 year	2,695	2,695	7,567	7,567
Long-Term Investments	3,110	3,110	9,340	9,340
Trade debtors	7,249	7,249	8,529	8,529
Loans and receivables	6,114	6,114	-	-
Total Loans and Receivables	19,168	19,168	25,436	25,436

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

(i) 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 requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- ✓ Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- ✓ by formally adopting the requirements of the 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.
- ✓ 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 Guidance.

These items are required to be reported and approved before the start of the year to which they relate. They are reported in the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instruments exposure. Actual review of Treasury Management Strategy is reported semi-annually to Members.

Both the General Capital Programme 2009/10-2011/12, incorporating the suite of prudential indicators (11/02/09) and the Annual Treasury Management Strategy 2009/10 (10/03/09) were approved by Council prior to the start of the financial year and are available on the Council website. The key controls and treasury issues arising were:-

- The Authorised Limit for 2009/10 was set at £186m. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was set at £181m. This is the expected level of debt and other long term liabilities during the year;
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40% respectively based on the Council's net debt;
- The maximum and minimum exposures to the maturity structure of debt are shown at Note (iv) Refinancing and Maturity Risk;
- An estimated total longer term borrowing requirement of £21.2m.

These policies are implemented by a central treasury team. 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 (TMP's). These TMP's are a requirement of the Code of Practice and are reviewed periodically.

(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 Council's TMP's 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 TMP's also impose a maximum amount and time to be invested with any particular financial institution.

NOTES TO THE CORE FINANCIAL STATEMENTS

The key components of the lending criteria include:

- Financial institutions with credit ratings of Short Term – F1; Long Term – A; Support – C; Individual – 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria;
- UK financial institutions provided with support from the UK Government;
- Other UK local authorities;
- Maximum monetary limit of £5m per individual institution;
- Maximum time limit of 1 month per individual institution.

The following analysis summarises the Council's potential maximum exposure to credit risk. The table as assessed by the ratings agencies gives details of global corporate finance average cumulative default rates (including financial organisations) for the period since at least 1990 to 2009. Defaults shown are by long term rating category on investments not exceeding 1 year.

	Amount at 31/03/10	Historical experience of default	Adjustment for market conditions at 31/03/10	Estimated maximum exposure to default
	£'000	%	%	£'000
Deposits with banks and financial institutions	(a)	(b)	(c)	(a) x (c)
AAA rated counterparties	-	0.00	0.00	-
AA rated counterparties	7,558	0.03	0.03	2
A rated counterparties	-	0.08	0.08	-
Trade debtors	8,529	5.00	5.00	426
	16,087			428

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties.

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 £5.5m 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 28 days	1,046
29 – 56 days	225
57 – 84 days	92
More than 85 days	4,126
	5,489

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 2010 was £0.3m.

(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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

The maturity analysis of financial assets is as follows:

	31/03/09	31/03/10
	£'000	£'000
Less than one year	2,687	7,558

All trade and other payables are due to be paid in less than one year are not shown in the table above.

(iv) Re-financing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

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:

	Approved Maximum Limits		Approved Minimum Limits		31/03/09	31/03/10
	%	£'000	%	£'000	£'000	£'000
Less than one year	25	38,259	0	-	16,661	14,290
Between one and two years	25	38,259	0	-	490	534
Between two and five years	50	76,518	0	-	1,129	20,581
Between five and ten years	75	114,777	0	-	1,000	3,465
More than ten years	100	153,036	25	38,259	116,630	114,166
					135,910	153,036

(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 Income and Expenditure Account 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 Income and Expenditure Account will rise; and
- ✓ investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Income and Expenditure Account or the Statement of Total Recognised Gains and Losses. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account 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 Statement of Total Recognised Gains and Losses, unless the investments have been designated as fair value through the Income and Expenditure Account.

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. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. The risk of interest rate loss remains fully with the local authority. In the longer term, the Scottish Government reviews the grant support it provides for local authority borrowing every three years. At this review stage, the government may, at its discretion, provide more, or less, support to recognise underlying changes in interest rates.

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	238
Increase in interest receivable on variable rate investments	(76)
Impact on Income and Expenditure Account	162
Share of overall impact debited to the HRA	31
Decrease in fair value of fixed rate investment assets	-
Impact on Statement of Total Recognised Gains and Losses	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on Income and Expenditure Account or Statement of Total Recognised Gains and Losses)	21,636

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note 36(b)(iii).

Price risk - The Council, excluding the pension fund, does not generally invest in equity shares. However, a previously held shareholding to the value of £3.11m in the Falkirk Community Stadium Limited Joint Venture was disposed of in the financial year.

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

NOTES TO THE CORE FINANCIAL STATEMENTS

37. Restatement of figures for the year to 31 March 2009

(a) PFI Schemes

The comparative figures for the year to 31 March 2009 have been restated to take into account the requirement of the 2009 SORP. This resulted in an additional 7 schools being shown as assets on the Balance Sheet. The restated entries can be summarised as follows:

	2008/09 Original £'000	Restatement £'000	2008/09 Restated £'000
<u>Income and Expenditure Account</u>			
Education Services	162,613	(7,671)	154,942
Interest Payable and Similar Charges	12,715	8,798	21,513
(Surplus) or Deficit for the Year	29,853	1,127	30,980
<u>Statement of Movement on General Fund Balance</u>			
Net additional amount required by statute and non-statutory proper practice to be credited to the General Fund for the year	(30,831)	(1,127)	(31,958)
<u>Statement of Total Recognised Gains and Losses</u>			
(Surplus) or Deficit on the Income and Expenditure Account for the year	29,853	1,127	30,980
(Surplus) or Deficit arising from revaluation of Fixed Assets	(74,671)	(71,653)	(146,324)
Actuarial (gains) or losses on pension fund assets and liabilities	66,309	-	66,309
Any other (gains) or losses	(610)	(1,126)	(1,736)
Total recognised gains and losses for the year	20,881	(71,652)	(50,771)
<u>Balance Sheet</u>			
Other Land and Buildings	301,404	183,635	485,039
Finance Lease Liabilities	-	(1,933)	(1,933)
Finance Lease Liabilities	-	(108,197)	(108,197)
Deferred Credits	-	(1,853)	(1,853)
Revaluation Reserve	(97,957)	(71,653)	(169,610)
Capital Adjustment Account	(241,337)	1	(241,336)
	(37,890)	-	(37,890)
<u>Cash Flow Statement</u>			
Net Cash Flow from Revenue Activities	(27,381)	(8,876)	(36,257)
Finance Lease Interest	-	8,876	8,876
<u>Group Income and Expenditure Account</u>			
Education Services	162,613	(7,671)	154,942
External Interest Payable	12,715	8,798	21,513
Deficit for the Year	43,630	1,127	44,757
<u>Reconciliation of Falkirk Council's (Surplus)/Deficit to the Group (Surplus)/Deficit</u>			
(Surplus)/Deficit for the year on Falkirk Council's Income and Expenditure Account	29,853	1,127	30,980
Deficit for the year on the Group Income and Expenditure Account	43,630	1,127	44,757
<u>Group Statement of Recognised Gains and Losses</u>			
Net(surplus)/deficit for the year			
- Council	29,853	1,127	30,980
Surplus on the revaluation of fixed assets			
- Council	(74,671)	(71,653)	(146,324)
Any other (gains)/losses in the STRGL			
- Council	(610)	(1,126)	(1,736)
Total recognised (gains)/losses for the year			
- Council	20,881	(71,652)	(50,771)

NOTES TO THE CORE FINANCIAL STATEMENTS

	2008/09 Original £'000	Restatement £'000	2008/09 Restated £'000
<u>Group Balance Sheet</u>			
Other Land and Buildings	301,404	183,635	485,039
Finance Lease Liabilities	-	(1,933)	(1,933)
Long Term Borrowing	(123,148)	(108,197)	(231,345)
Deferred Credits	-	(1,853)	(1,853)
Revaluation Reserve	(101,293)	(71,653)	(172,946)
Capital Adjustment Account	(254,449)	1	(254,448)
	(177,486)	-	(177,486)

Group Cash Flow Statement

Net Cash inflow from Revenue Activities	(27,381)	(8,876)	(36,257)
Finance Lease Interest	-	8,876	8,876

(b) **Collection of Non-Domestic Rates**

The comparative figures for the year to 31 March 2009 have been restated to take into account the requirement of the 2009 SORP. The restated entries can be summarised as follows:

	2008/09 Original £'000	Restatement £'000	2008/09 Restated £'000
<u>Balance Sheet</u>			
Debtors	28,195	(2,517)	25,678
Provision for Bad Debts	(12,105)	2,016	(10,089)
Creditors	(41,951)	501	(41,450)
	(25,861)	-	(25,861)

Group Balance Sheet

Debtors	28,195	(2,517)	25,678
Provision for Bad Debts	(12,105)	2,016	(10,089)
Creditors	(41,951)	501	(41,450)
	(25,861)	-	(25,861)

HOUSING REVENUE INCOME AND EXPENDITURE ACCOUNT

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.

2008/09 £'000		2009/10 £'000
(40,120)	Dwelling Rents	(40,995)
(1,512)	Non-Dwelling Rents	(1,539)
(625)	Hostels	(624)
(505)	Housing Support Grant	(662)
(1,164)	Other Income	(1,654)
(43,926)	TOTAL INCOME	(45,474)
20,674	Repairs and Maintenance	21,025
13,133	Supervision and Management	13,900
16,838	Depreciation and Impairment of Fixed Assets	13,480
946	Other Expenditure	912
(45)	Increase/(Decrease) in Bad Debts Provision	110
51,546	TOTAL EXPENDITURE	49,427
	Net Expenditure of HRA Services per Income and Expenditure Account	3,953
7,620	Account	3,953
264	HRA Services Share of Corporate and Democratic Core	254
7,884	Net Expenditure of HRA Services	4,207
	HRA Share of Operating Income and Expenditure included in the Income and Expenditure Account:	
(5,002)	(Gain)/Loss on Sale of HRA Fixed Assets	(2,899)
1,797	Interest Payable and similar charges	1,395
(501)	Interest and Investment Income	(66)
163	Pensions Interest Cost and Expected Return on Pension Assets	523
4,341	(SURPLUS)/DEFICIT FOR THE YEAR	3,160

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

This statement takes the outturn on the HRA Income and Expenditure Account and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Housing (Scotland) Act 1987.

2008/09 £'000		2009/10 £'000
4,341	(Surplus) or deficit on the HRA Income and Expenditure Account	3,160
(3,723)	Net additional amount required by statute or non-statutory proper practices to be credited to the HRA balance for the year	(2,551)
618	(INCREASE)/DECREASE IN HRA BALANCE FOR THE YEAR	609
(7,161)	Housing Revenue Account Balance brought forward	(6,543)
(6,543)	Sub-Total	(5,934)
-	Transfer from/(to) General Fund	-
(6,543)	HOUSING REVENUE ACCOUNT BALANCE CARRIED FORWARD	(5,934)

NOTES TO THE HOUSING REVENUE INCOME AND EXPENDITURE ACCOUNT

1. Housing Stock

The Council Housing Stock at 31 March 2010 was 16,164 properties in the following categories:-

2008/09 Number		2009/10 Number
87	One apartment	87
2,533	Two apartments	2,529
8,510	Three apartments	8,466
4,654	Four apartments	4,620
459	Five apartments	457
<u>4</u>	Six apartments or larger	<u>5</u>
<u>16,247</u>	TOTAL	<u>16,164</u>
£48.33	Average Weekly rent (52 week basis)	£49.77

2. Rent Arrears

Rent Arrears at 31 March 2010 were £1,616,563 (£1,514,673 in 2008/09).

3. Provision for Bad Debts

A provision of £1,250,000 has been provided in the Balance Sheet for irrecoverable rents, an increase of £110,000 from the provision in 2008/09

4. Note of reconciling items for the Statement of Movement on the HRA Balance

2008/09 £'000		2009/10 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year	
(17,081)	Revaluation and Impairment	(13,886)
242	Government Grant Deferred Amortisation	376
5,002	Gain or (Loss) on Sale of HRA Fixed Assets	2,899
67	Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	64
<u>(882)</u>	Net Charges made for retirement benefits in accordance with FRS17	<u>(1,464)</u>
<u>(12,652)</u>		<u>(12,011)</u>
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year	
848	Employer's contribution payable to the Pension Fund and retirement benefits payable direct to pensioners	901
5,726	Statutory repayment of debt	6,404
<u>2,355</u>	Capital Expenditure funded by the HRA	<u>2,155</u>
<u>8,929</u>		<u>9,460</u>
<u>(3,723)</u>	Net Additional amount required by statute to be credited to the HRA balance for the year	<u>(2,551)</u>

5. Losses on Void Properties

2008/09 £'000		2009/10 £'000
397	Dwelling Rents	421
<u>96</u>	Non-Dwelling Rents	<u>73</u>
<u>493</u>		<u>494</u>

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 Benefit.

2008/09 £'000	2008/09 £'000	EXPENDITURE	2009/10 £'000	2009/10 £'000
	1,511	Exemptions		1,545
	5,973	Discounts		6,046
8,058		Council Tax Benefit	8,552	
<u>(8,195)</u>	(137)	Less: Government Subsidy	<u>(8,668)</u>	(116)
	64	Relief (Persons with a Disability)		69
	76	Prior Year Adjustments		126
	742	Provisions Against Bad and Doubtful Debts		922
	8,229	TOTAL EXPENDITURE		8,592
INCOME				
	67,369	Gross Council Tax Levied		67,956
	67,369	TOTAL INCOME		67,956
	59,140	SURPLUS FOR YEAR		59,364
APPROPRIATED AS FOLLOWS				
	59,140	General Fund		59,364

NOTES TO COUNCIL TAX INCOME ACCOUNT

1. 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.

2. Calculation of the Council Tax Base (Per 2009/10 Budget)

	Band A *	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	TOTAL
No. of Dwellings	-	22,598	18,932	6,190	8,142	8,011	4,624	1,996	56	70,549
Exempt Dwellings	-	762	332	100	84	62	34	12	2	1,388
Chargeable Dwellings	-	21,836	18,600	6,090	8,058	7,949	4,590	1,984	54	69,161
Disabled Reduction	103	2	(55)	9	7	(34)	(26)	(6)	0	0
Adjusted Chargeable Dwellings	103	21,838	18,545	6,099	8,065	7,915	4,564	1,978	54	69,161
Discounts (25%)	36	12,410	6,545	2,262	2,051	1,399	527	166	5	25,401
Discounts (50%)	0	473	217	132	102	80	26	31	4	1,065
Not entitled to Discount	67	8,955	11,783	3,705	5,912	6,436	4,011	1,781	45	42,695
Effective Dwellings	94	18,499	16,800	5,467	7,501	7,526	4,419	1,921	51	62,278
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	52	12,333	13,067	4,860	7,501	9,198	6,383	3,202	102	56,698
Less: Dwellings for which collection of Council Tax is considered to be doubtful – 97.5% collection										1,418
BUDGETED COUNCIL TAX BASE										55,280

3. 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 2009/10 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 RATE INCOME ACCOUNT

Non-Domestic Rates is 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 48.1 pence. The small business bonus scheme provides relief ranging from 25% to 100% for properties with rateable values of £15,000 and less. The cost of the small business bonus scheme was met from a supplement of 0.4 pence on properties with rateable values in excess of £29,000. 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.

2008/09 £'000	EXPENDITURE	2009/10 £000
56	Small Business Relief (Excludes Small Property Relief)	25
1,844	Small Business Bonus Scheme	2,804
1,096	Rating (Disabled Persons) Relief	1,158
1,453	Mandatory Relief	1,542
190	Discretionary Relief	202
84	Sports Club Relief	95
2,952	Voids and Empty Periods	3,365
1,358	Provision against Doubtful Debts	625
46	Interest on Overpaid Rates	72
9,079	TOTAL EXPENDITURE	9,888
INCOME		
63,997	Rate Levied (Net of Small Property Relief)	65,727
148	Transitional Scheme	-
64,145	TOTAL INCOME	65,727
55,066	NET NON-DOMESTIC RATE INCOME	55,839
2,350	Contribution (to)/from National Non-Domestic Rate Pool	7,362
57,416	NET NON-DOMESTIC RATE INCOME TRANSFERRED TO GENERAL FUND	63,201

NOTES TO NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values as at 1 April, 2009

	No. of Premises	Rateable Value	
		£'000	%
Shops	1,321	32,773	23.2
Hotels and Public Houses	145	4,243	3.0
Offices	870	12,399	8.8
Industrial – Factories, Warehouses, Stores and Workshops	1,240	38,762	27.4
Sports, Leisure, Cultural, Entertainment, Caravans, Holiday Sites	199	4,022	2.9
Garages and Petrol Stations	77	1,878	1.3
Education and Training	81	8,082	5.7
Public Service Subjects	165	4,566	3.2
Quarries and Mines	18	613	0.4
Petrochemical	14	19,459	13.7
Religious	160	819	0.5
Health/Medical and Care Facilities	158	4,895	3.5
Utilities	27	7,715	5.5
Communications, Advertising and Other	231	1,303	0.9
Total	4,706	141,529	100.0

2. National Non-Domestic Rates Pool

The contributions to and from the National Non-Domestic Rates Pool shown above represent the rates collected by the Council and paid over to the Government and the sum received from the Government from the National Rates Pool, distributed through the aggregate external finance mechanism.

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 2008.

2008/09 £'000	Income and Expenditure Account	Former Bo'ness Town Council 2009/10 £'000	Former Denny Town Council 2009/10 £'000	Former Grangemouth Town Council 2009/10 £'000	Former Falkirk Town Council 2009/10 £'000	TOTAL £'000
	Income					
(23)	Rents Received	-	-	-	(21)	(21)
(29)	Interest	-	-	-	(4)	(4)
(52)		-	-	-	(25)	(25)
39	Expenditure	1	-	1	2	4
(13)	(Surplus)/Deficit for Year	1	-	1	(23)	(21)
	Balance Sheet					
235	Fixed Assets	-	-	-	235	235
821	Investments	58	6	26	752	842
1,056	Net Assets	58	6	26	987	1,077
	Financed by:-					
235	Asset Revaluation Reserve	-	-	-	235	235
821	Revenue Reserve	58	6	26	752	842
1,056		58	6	26	987	1,077

A. Jannetta

A Jannetta, CPFA
Director of Finance
30 September 2010

GROUP INCOME AND EXPENDITURE ACCOUNT

2008/09 Net Expenditure £'000 (Restated)		2009/10 Gross Expenditure £'000	2009/10 Gross Income £'000	2009/10 Net Expenditure £'000
154,942	Education Services	149,199	5,930	143,269
68,656	Social Work Services	103,618	22,942	80,676
13,077	Other Housing Services	42,289	38,878	3,411
7,620	Housing Revenue Account	49,427	45,474	3,953
19,120	Development Services	28,567	3,207	25,360
22,891	Community Services	36,047	13,683	22,364
14,998	Corporate and Neighbourhood Services	15,085	4,152	10,933
3,381	Miscellaneous Services	5,602	4,124	1,478
3,080	Corporate and Democratic Core	3,085	134	2,951
635	Non-Distributed Costs	7,212	482	6,730
13,943	Police Services	14,331	-	14,331
8,809	Fire and Rescue Services	9,414	-	9,414
1,297	Valuation Services	1,334	-	1,334
1,000	Exceptional Item	-	-	-
39	Operating Results of Common Good Funds	4	-	4
151	Share of the Operating Results of Associates	45,336	46,569	(1,233)
333,639	Net Cost of Services	510,550	185,575	324,975
21,513	External Interest Payable			21,903
690	Share of Interest Payable of Associates			456
-	Interest Payable by Subsidiaries			15
(2,090)	Total Net Surplus from Trading Accounts			(2,860)
(5,045)	Interest Receivable			(448)
(100)	Share of Interest Receivable of Associates			(7)
3,188	Pensions Interest and Expected Return on Assets			10,260
	Share of Pensions Interest Cost and Expected			
13,051	Return on Pensions Assets of Associates			14,188
(4,457)	(Gain)/Loss on Disposal of Fixed Assets			(2,933)
360,389	NET OPERATING EXPENDITURE			365,549
	Less:			
(199,076)	Government Grant			(210,590)
(57,416)	Distribution from Non-Domestic Rates Pool			(63,201)
(59,140)	Council Tax			(59,364)
44,757	DEFICIT FOR YEAR			32,394

**RECONCILIATION OF FALKIRK COUNCIL'S (SURPLUS)/DEFICIT
TO THE GROUP (SURPLUS)/DEFICIT**

2008/09 Restated £'000		2009/10 £'000
30,980	(Surplus)/deficit for the year on Falkirk Council's Income and Expenditure Account	18,703
-	Adjustments for transactions with other group entities	-
30,980	(Surplus)/deficit in the Group Income and Expenditure Account attributable to Falkirk Council	18,703
	(Surplus)/deficit in the Group Income and Expenditure Account attributable to group entities (adjusted for intra-group transactions)	
-	- Subsidiaries	237
13,790	- Associates	13,475
(13)	- Common Good Funds	(21)
44,757	Deficit for the year on the Group Income and Expenditure Account	32,394

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2008/09 Restated £'000		2009/10 £'000
	Net (surplus)/deficit for the year	
30,980	- Council	18,703
-	- Subsidiaries	237
13,790	- Associates	13,475
(13)	- Common Good Funds	(21)
	(Surplus)/deficit on the revaluation of fixed assets	
(146,324)	- Council	16,314
-	- Subsidiaries	-
-	- Associates	(587)
-	- Common Good Funds	-
	Actuarial (gains)/losses on pension fund assets and liabilities	
66,309	- Council	156,432
-	- Subsidiaries	-
2,802	- Associates	104,576
-	- Common Good Funds	-
	Any other (gains)/losses recognised in the STRGL	
(1,736)	- Council	(2,907)
-	- Subsidiaries	(1,784)
1	- Associates	(26)
-	- Common Good Funds	-
	Total recognised (gains)/losses for the year	
(50,771)	- Council	188,542
-	- Subsidiaries	(1,547)
16,593	- Associates	117,438
(13)	- Common Good Funds	(21)

GROUP BALANCE SHEET

2008/09 (Restated) £'000		2009/10 £'000	2009/10 £'000	Notes
	Intangible Fixed Assets			
259	Software Licences		191	
	Tangible Fixed Assets			
88,762	Council Dwellings	88,308		
485,039	Other Land and Buildings	506,265		
8,360	Vehicles, Plant and Equipment	10,669		
70,574	Infrastructure Assets	76,535		
1,649	Community Assets	1,584		
	Non-Operational Assets			
95,874	Investment Properties	100,148		
4,077	Assets under Construction	4,947		
1,396	Surplus Assets	25,141	813,597	
755,990			813,788	
7,006	Capital Advance to Central Scotland Joint Fire and Rescue Board		6,571	
8,432	Long Term Debtors		2,158	
	Long Term Investments			
(188,229)	Investments in Associates		(304,092)	1
3,110	Other Long Term Investments		3,106	
	Current Assets			
846	Stocks and Work in Progress	770		
25,678	Debtors	28,902		
(10,089)	Less Provision for Bad Debts	(11,050)		
2,695	Investments	7,567		
38	Cash and Bank	99		
	Less: Current Liabilities			
(16,550)	Temporary Advance from Other Funds	(11,599)		
(18,820)	Borrowing Repayable on Demand or within 12 months	(16,445)		
(41,450)	Creditors	(37,039)		
(1,933)	Finance Lease Liabilities	(14,220)		
(173)	Bank Account Balance	(233)		
(59,758)	Net Current Liabilities		(53,248)	
(229,203)	Long Term Borrowing		(140,946)	
-	Finance Lease Liabilities		(151,007)	
(5,000)	Provision for Equal Pay Liabilities		(5,000)	
(1,853)	Deferred Credits		(1,773)	
(28,174)	Deferred Government Grants and Other Contributions		(46,502)	
(124,107)	Liability related to Defined Benefit Pension Scheme		(289,253)	
138,214	NET ASSETS		(166,198)	
	Represented By:			
2,334	Repairs and Renewals Fund		1,584	
(329,180)	Pension Reserve		(609,429)	
-	Employee Statutory Adjustment Account (Injury Benefits)		(1,967)	
38,376	Revenue Account Surplus		36,264	
172,946	Revaluation Reserve		152,980	
254,448	Capital Adjustment Account		251,325	
(7,721)	Financial Instruments Adjustment Account		(7,389)	
2,918	Insurance Fund		3,020	
4,093	Capital Receipts		3,991	
-	Share Capital		3,423	
138,214			(166,198)	

A. Jannetta

A Jannetta, CPFA
Director of Finance

The unaudited accounts were issued on 28 June 2010 and the audited accounts were authorised for issue on 30 September 2010.

GROUP CASH FLOW STATEMENT

2008/09 Restated £'000	2009/10 £'000	2009/10 £'000
(36,257)		(27,628)
-		-
13,255	8,240	
8,876	13,644	
(5,240)	(337)	
16,891		21,547
-		-
44,208	39,948	
280	117	
(7,069)	(6,728)	
(11,502)	(13,336)	
(974)	(1,610)	
24,943		18,391
-		-
-		-
5,577		12,310
(31,717)		4,872
42,146	504	
67,544	79,091	
(83,271)	(76,720)	
-	(20,000)	
26,419		(17,125)
279		57

NOTES TO THE GROUP ACCOUNTS

1. Investments in Associates

	Fire and Rescue Board	Police Board	Valuation Board	Total
	£'000	£'000	£'000	£'000
Repairs and Renewals Fund	294	-	-	294
Pensions Reserve	(71,690)	(245,355)	(3,131)	(320,176)
Employee Statutory Adjustment Account	(209)	(1,758)	-	(1,967)
Revaluation Reserve	2,703	1,108	-	3,811
Capital Adjustment Account	3,627	8,601	7	12,235
Insurance Fund	-	2	-	2
Capital Receipts Reserve	392	-	-	392
Revenue Account Surplus	455	760	102	1,317
	(64,428)	(236,642)	(3,022)	(304,092)

The total Pensions Liability relating to Central Scotland Joint Fire and Rescue Board is £137.475m, as per the latest valuation.

The total Pensions Liability relating to Central Scotland Joint Police Board is £477.976m, as per the latest valuation.

2. Cash Flow Reconciliation with Group Income and Expenditure Account

	£'000	£'000
DEFICIT FOR THE YEAR ON GROUP INCOME AND EXPENDITURE ACCOUNT		32,394
Reduction in Deficit for the year not included in Cash Flow as not subsidiary		(13,691)
Net Deficit for the year		18,703
Non-Cash Transactions		
Increase/(Decrease) in Revenue Debtors	1,627	
(Increase)/Decrease in Revenue Creditors	14,185	
Decrease in Stock	(76)	
Depreciation and Impairment	(35,860)	
Deferred Grants Amortised in Year	1,267	
Pension Fund Adjustments	(8,714)	
Provision for Equal Pay	-	
Other Non-Cash Financial Instrument Adjustments	(309)	(27,880)
Items Classified Elsewhere		
Interest and Investment Income	448	
Interest Payable	(21,903)	
Gain on Disposal of Fixed Assets	3,004	(18,451)
NET CASH INFLOW FROM GROUP REVENUE ACTIVITIES		(27,628)

NOTES TO THE GROUP ACCOUNTS

3. Combining Entities

For the purpose of consolidation and incorporation within the Group Accounts, the Council has one Subsidiary Company (Falkirk Community Stadium Limited) and three Associates (Central Scotland Joint Fire and Rescue Board, Central Scotland Joint Police Board and Central Scotland Joint Valuation Board).

Central Scotland Joint Fire and Rescue Board

This Board is jointly administered by the Councils of Clackmannanshire, Falkirk and Stirling and provides fire and rescue services to the constituent authorities. The accounting period is to 31 March. Falkirk Council is requisitioned for 52.3% of expenditure, based on adjusted population. The accounts are available on the Board's website (www.centralscotlandfire.gov.uk).

Central Scotland Joint Police Board

This Board is jointly administered by the Councils of Clackmannanshire, Falkirk and Stirling and provides police services to the constituent authorities. The accounting period is to 31 March. Falkirk Council is requisitioned for 51.7% of expenditure, based on Grant Aided Expenditure. The accounts are available on the Board's website (www.centralscotland.police.uk).

Central Scotland Joint Valuation 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. The accounting period is to 31 March. Falkirk Council is requisitioned for 49.2% of expenditure, based on adjusted population. The accounts are available from Clackmannanshire Council.

FCSL (Holdings) Ltd and Falkirk Community Stadium Limited (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. The accounts are available from the FCSL Company Secretary, Municipal Buildings, Falkirk. The accounting period is to 31 March.

Common Good Funds

Falkirk Council administers the Common Good Account 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 is to 31 March.

4. Nature of Combination

The Council has accounted for its interest in each Associate by the merger method of accounting.

With regard to the three Joint Boards, 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 Subsidiary 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.

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

PENSION FUND ACCOUNT

This statement shows the revenue account of the Pension Fund and separates those transactions which are related to dealings with members as opposed to those transactions which are a consequence of investment.

2008/09 £'000	CONTRIBUTIONS AND BENEFITS	2009/10 £'000	Note
	Contributions receivable:		
45,254	From Employers	49,880	12
15,514	From Employees	17,194	12
5,519	Transfers from Other Schemes	5,333	
	Benefits Payable:		
(26,880)	Pensions	(29,305)	12
(7,563)	Lump Sums	(14,066)	12
	Payments to and on account of leavers:		
(226)	Refunds of contributions	(176)	
(3,296)	Transfers Out	(4,931)	
(455)	Administrative and Other Expenses	(430)	
27,867	Net Additions from dealing with Members	23,499	
	RETURNS ON INVESTMENTS		
26,137	Investment Income	14,131	7
(414)	Taxation (Irrecoverable withholding tax)	(144)	
	Change in Market Value of Investments:		
(121,196)	Realised	21,958	
(92,915)	Unrealised	232,838	
(3,136)	Investment Management Expenses	(2,425)	6
(191,524)	Net Return on Investments	266,358	
(163,657)	Net Increase/(Decrease) in the Fund during the year	289,857	
947,170	Opening Net Assets as at 1 April 2009	783,513	
783,513	Closing Net Assets as at 31 March 2010	1,073,370	

PENSION FUND NET ASSETS STATEMENT

This statement discloses the size and type of the net assets of the scheme at the end of the financial year.

Restated 2008/09 £'000		2009/10 £'000
	INVESTMENT ASSETS	
119,417	U.K. Equities - Quoted	191,331
2,394	U.K. Managed Funds – Others	3,896
31,725	U.K. Managed Funds – Unquoted	24,555
47,687	U.K. Managed Funds – Property	73,700
375,703	U.K. Managed Funds – Life Fund	530,242
121,432	Overseas Equities - Quoted	186,732
19,044	Overseas Managed Funds – Unquoted	21,520
12,408	Overseas Managed Funds – Property	10,837
2,550	UK Property	2,550
1,340	Derivatives – Forward Foreign Exchange	59
24,977	Cash Deposits	8,351
10,093	Other Investment Balances	8,446
768,770	TOTAL INVESTMENT ASSETS	1,062,219
	INVESTMENT LIABILITIES	
(936)	Derivatives – Forward Foreign Exchange	-
767,834	NET INVESTMENT ASSETS	1,062,219
	CURRENT ASSETS	
2,585	Contributions due from Employers	2,551
1,364	Other Current Assets	1,440
13,593	Cash Balances	9,103
	CURRENT LIABILITIES	
(573)	Unpaid Benefits	(1,061)
(1,290)	Other Current Liabilities	(882)
783,513	NET ASSETS	1,073,370

The financial statements summarise the transactions of the Fund during the year and the net assets at the year end. They do not take account of the obligations to pay pensions and other benefits which fall due after the end of the year. The actuarial position of the scheme, which does take account of such obligations, is discussed further in the Notes to the Pension Fund Accounts and these financial statements should be read in conjunction with that information.

A. Jannetta

A Jannetta, CPFA
 Director of Finance
 30 September 2010

NOTES TO THE PENSION FUND ACCOUNTS

1. **Fund Operations and Membership**

In terms of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, Falkirk Council is responsible for the maintenance and administration of the Pension Fund, which provides pension and lump sum benefits in respect of pensioners, deferred pensioners and active members. Eligible employees of the following employers can be members of the Fund:

Scheduled Bodies

Central Scotland Joint Fire and Rescue Service
Central Scotland Joint Valuation Board
Central Scotland Joint Police Board
Clackmannanshire Council
Falkirk Council
Forth Valley College
Scottish Children's Reporter Administration (SCRA)
Scottish Environment Protection Agency (SEPA)
Scottish Police Services Authority (Ex-Central Scotland Police)
Stirling Council
Visit Scotland (Ex-Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board)

Admission Bodies

Active Stirling
Alsorts
Amey (Clackmannanshire Schools Project)
Association of Scottish Colleges
Ballikinrain School
Central Scotland Council for Racial Equality
Central Carers Association
Ceteris
Community Training and Development Unit
Cowane's Hospital
Dollar Academy Trust
Forth and Oban Ltd (Falkirk Schools Project)
Forth and Oban Ltd (Stirling Schools Project)
Forth Valley GIS Ltd
McLaren Community Leisure Centre
Open Secret
Playplus
Raploch URC
Scottish Society for Autism
Seamab School
Smith Art Gallery
Snowdon School Ltd
Stirling District Tourism Ltd
Stirling Enterprise Park Limited
Stirling University
Strathcarron Hospice
Valad Management (UK) Ltd
Water Industry Commission for Scotland
Waterwatch Scotland

Administration of the Fund is managed in-house. The investments of the Fund are managed by external Fund Managers within the overall policy direction of the Council's Investment Committee. The Fund is a separate entity from Falkirk Council, and its Accounts are not included in the Council's Balance Sheet.

2. **Basis of Preparation**

The financial statements have been prepared in accordance with the guidelines set out in a Statement of Recommended Practice (SORP) : Financial Reports of Pension Schemes (Revised May 2007).

3. **Accounting Policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been consistently applied, is set out below.

NOTES TO THE PENSION FUND ACCOUNTS

Basis

The financial statements are generally prepared on an accruals basis except transfers of benefits to and from the scheme which are treated on a cash basis.

Valuation of Investments

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in Sterling using exchange rates as at the close of business. The direct property portfolio was valued at 31 March 2008 by DM Hall LLP, Chartered Surveyor in accordance with the requirements of the RICS Valuation Standards 6th edition. Unquoted holdings in private equity funds have been included at the fund managers' valuation adjusted for cash movements since the last valuation date.

Investment Income

Investment income is taken into account where dividends have been declared at the end of the financial year. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account. Interest is included in the accounts on an accruals basis.

4.(a) Actuarial Valuation

As required by statute, the most recent actuarial valuation of the Fund was undertaken at 31 March 2008. The key results were as follows:

- the market value of the Fund was £947.2 million;
- the funding level was 79%;
- the funding requirement needed to meet future service liabilities was 17.7% of pensionable pay;
- the theoretical funding requirement was 23.8% of pensionable pay made up of 17.7% in respect of future service liabilities and 6.1% in respect of the past service deficit;
- for fund employers with a strong covenant, the actuary authorised an employer contribution rate that was less than the theoretical funding requirement, on the basis that employers would, if necessary, pay a contribution rate that increased by at least 0.5% per year for the following six years;
- for fund employers with a less secure covenant, the actuary authorised an employer contribution rate that was equal to the funding requirements, with contributions increases generally being phased in over a 3 year period;
- the employers' contribution rate for Clackmannanshire, Falkirk and Stirling Councils (and the 3 Joint Boards) is being implemented in stages by paying 18%, 18.5% and 19% of pensionable pay in 2009/10, 2010/11 and 2011/12 respectively;

The funding policy of the Scheme is to pursue a funding level of 100%. For the majority of employers, the current funding deficit is being recovered over a period of 20 years. In determining future service liabilities, the actuary used the *projected unit method* for employers who are still admitting new members and the *attained age method* for employers who have closed the scheme to new members.

The next formal valuation of the Fund does not take place until 31 March 2011, however, in accordance with the Council's commitment to monitor the ongoing performance of the Fund, the actuary has estimated that the funding level at March 2010 was 76%. This represents a significant improvement in the estimated funding level at March 2009, when market falls had reduced the funding level to around 65%.

Although the estimated funding level at March 2010 is below that of the 2008 valuation, the actuary remains satisfied with the current funding strategy and cautions against amending long term plans on the basis of short term market volatility.

It should be noted that the projection of the funding level in March 2010 was undertaken prior to the instability experienced in financial markets in Spring 2010 as a result of the European debt crisis.

NOTES TO THE PENSION FUND ACCOUNTS

(b) The main assumptions highlighted by the Actuary as underlying the 2008 valuation were as follows:-

		Annual Rate	
a) Economic		Absolute	Real
		%	%
*	Anticipated outperformance of Fund's Assets over return available on Gilts	-	1.6
*	Future escalation of pensionable remuneration arising as a result of general economic conditions	5.1	1.5
*	Allowance for future pension increases – such increases are in line with price inflation	3.6	-
*	Discount Rate used to value Fund Liabilities	6.1	2.5
b) Statistical			
*	Allowances have been made for ill health retirements and early withdrawals from service		
*	Pensioners will live a little longer than was assumed in the valuation at 31 March 2005		
*	A varying proportion of members will be married or in civil partnerships and entitled to a survivor's pension		
*	Husbands are assumed to be 3 years older than their wives		
*	Members to retire at age 60 or on later satisfaction of the 85-year rule but not later than age 65		
*	50% of future retirements will exchange pension for maximum tax free cash		
*	Administration Expenses will be 0.2% of payroll		

5. Contributors and Pensioners

2008/09			2009/10	
Contributors	Pensioners		Contributors	Pensioners
13,094	6,530	Scheduled Bodies	12,338	6,820
977	240	Admission Bodies	967	270
14,071	6,770	TOTAL	13,305	7,090

6. Investment Management Expenses

2008/09			2009/10	
£'000			£'000	
3,063		External Investment Management Services	2,358	
73		Internal Administration	67	
3,136		TOTAL	2,425	

7. Investment Income

2008/09			2009/10	
£'000			£'000	
15,517		UK Equities	6,480	
145		UK Managed Funds – Others	127	
2,977		UK Managed Funds – Property	2,748	
6,131		Overseas Equities	4,059	
12		Overseas Managed Funds – Unlisted	48	
173		Overseas Managed Funds – Property	231	
203		UK Property	206	
979		Other Income	232	
26,137			14,131	

NOTES TO THE PENSION FUND ACCOUNTS

8. Investments

	Market Value at 01/04/09 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value £'000	Market Value At 31/03/10 £'000
Investment Assets					
UK Equities – Quoted .	119,417	26,447	(23,338)	68,805	191,331
UK Managed Funds – Others	2,394	-	-	1,502	3,896
UK Managed Funds – Unquoted	31,725	3,354	(465)	(10,059)	24,555
UK Managed Funds – Property	47,687	22,865	(2,324)	5,472	73,700
UK Managed Funds – Life Fund	375,703	108,666	(107,862)	153,735	530,242
Overseas Equities – Quoted	121,432	114,159	(97,928)	49,069	186,732
Overseas Managed Funds – Others	-	-	-	-	-
Overseas Managed Funds – Unquoted	19,044	4,966	(556)	(1,934)	21,520
Overseas Managed Funds – Property	12,408	997	-	(2,568)	10,837
UK Property	2,550	-	-	-	2,550
Derivatives – Forward Foreign Exchange	404	1,788	(2,037)	(96)	59
	732,764	283,242	(234,510)	263,926	1,045,422
Cash Deposits	24,977	-	(10,432)	(6,194)	8,351
Other Investment Balances	10,093	679	(436)	(1,890)	8,446
Net Investment Assets	767,834	283,921	(245,378)	255,842	1,062,219

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £515,256. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

The Fund holds the following investments in pooled funds, which are in excess of 5% of the value of the Fund.

2008/09		Investment Manager	Pooled Funds	2009/10	
£'000	%			£'000	%
92,401	11.8	Legal & General Investment Management Ltd.	UK Equity Index	140,458	13.1
87,085	11.1	Legal & General Investment Management Ltd.	North America Equity Index	133,219	12.4
90,635	11.6	Baillie Gifford Life Ltd	Sterling Aggregate Bond	65,032	6.1

9. Derivatives

Derivatives – Forward Foreign Exchange Summary of Contracts held at 31 March 2010

Contract	Settlement Date	Value of Currency Bought		Liability £'000	Net £'000
		£'000	Asset £'000		
Various Currency Forwards	Within 1 month	19	-	-	-
Various Currency Forwards	2 months	-	-	-	-
Various Currency Forwards	3 months	-	-	-	-
Various Currency Forwards	4 months	-	-	-	-
Various Currency Forwards	5 months	2,443	59	-	59
		2,462	59	-	59

The above table summarises the contracts held by maturity date, three foreign currencies being involved. All contracts are traded on an over-the-counter basis. These contracts are used by one of the Fund's Managers to reduce the extent to which the Fund is exposed to currency movements.

NOTES TO THE PENSION FUND ACCOUNTS

10. Funds Under External Management

MARKET VALUE 2008/09			MARKET VALUE 2009/10		
£ million	(%)		£ million	(%)	
117.4	15.3	Baillie Gifford Life Ltd.	143.4	13.5	
258.4	33.8	Legal and General Investment Management Ltd.	386.8	36.5	
139.1	18.2	Newton Investment Management Ltd.	211.2	19.9	
112.5	14.7	Schroder Investment Management Ltd.	178.3	16.8	
71.6	9.4	Schroder Investment Management Ltd. (Property)	85.4	8.1	
39.0	5.1	SL Capital Partners LLP	28.7	2.7	
27.3	3.5	Wilshire Private Markets Group	25.9	2.5	
<u>765.3</u>	<u>100.0</u>		<u>1,059.7</u>	<u>100.0</u>	

11. Related Party Transactions

During the year transactions with related parties arose as follows:

	Receipts £'000
REVENUE ACCOUNT	
Employers pension contributions received from other parties.	1,845
NET ASSETS STATEMENT	
Sums due from Scheduled and Admission Bodies to the Fund as at 31 March 2010	4,860

12. Contributions Receivable and Benefits Payable

	CONTRIBUTIONS RECEIVABLE		BENEFITS PAYABLE	
	Employees £'000	Employers £'000	Pensions £'000	Lump Sum* £'000
Administering Authority	5,801	17,158	10,380	4,120
Other Scheduled Bodies	10,087	29,131	17,757	9,269
Admission Bodies	1,306	3,591	1,168	677
Totals	<u>17,194</u>	<u>49,880</u>	<u>29,305</u>	<u>14,066</u>

* Includes "Death Benefits" of £0.92m

13. Employers Contributions

	Administering Authority £'000	Other Scheduled Bodies £'000	Admission Bodies £'000	Total £'000
Normal Employers	16,847	26,620	3,511	46,978
Deficit Contributions	-	5	-	5
	<u>16,847</u>	<u>26,625</u>	<u>3,511</u>	<u>46,983</u>
Strain on Fund Contribution	311	2,483	80	2,874
Augmentation Contribution	-	23	-	23
	<u>17,158</u>	<u>29,131</u>	<u>3,591</u>	<u>49,880</u>

The level of normal and deficit contributions for 2009/10 were set as a result of the Fund Valuation at 31 March 2008.

NOTES TO THE PENSION FUND ACCOUNTS

14. Securities Lending

The Fund did not participate in any stock lending programme managed by its global custodian, Northern Trust.

15. Statement of Investment Principles

In accordance with Pension Regulations, the Fund has published a Statement of Investment Principles governing its decisions about Fund investments. A copy of the document is available from the Director of Finance, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS.

16. Funding Strategy Statement

As required by the Pension Regulations, the Council's approach to funding its scheme liabilities is set out in the Funding Strategy Statement. A copy of the document is available from the Director of Finance, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS.

17. Additional Voluntary Contributions

The Fund is required to offer an Additional Voluntary Contributions (AVC) facility to its Scheme Members. The arrangement operates on a money purchase basis with members' contributions being invested by Standard Life who are the Council's chosen AVC provider.

The AVC contributions are sent directly to Standard Life by employers and as a result, they do not form part of the contribution income of the Fund.

The net asset value of the AVC policy at 5 April 2010 was £2.60 million (£2.24 million at 5 April 2009). Contributions made by members during the year to 5 April 2010 were £0.31 million. Expenditure from the policy during the same period (including the purchase of member annuities) amounted to £0.33 million. These amounts are not included in the Pension Fund Accounts in accordance with regulation 5 of the Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 (SI 1998 No. 2888).

18. Contractual Commitments

As at 31 March 2010, the Fund had contractual commitments of £116m within its private equity and credit markets portfolio of which £63.8m remains outstanding.

19. Contingent Assets/Liabilities

The Fund has no material contingent assets or liabilities at the period end and there were no material non-adjusting events occurring subsequent to the period end.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Falkirk Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Falkirk Council and its group for the year ended 31 March 2010 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the Housing Revenue Account Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, Common Good Funds Account, Pension Fund Accounts and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

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 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice (the 2009 SORP) are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, I report to you if, in my opinion, the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Annual Governance Statement reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Introduction to the Accounts and the Foreword by the Director of Finance. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

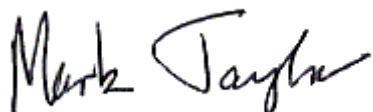
I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Falkirk Council and its group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Falkirk Council and its group as at 31 March 2010 and the income and expenditure of Falkirk Council and its group for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

A handwritten signature in black ink that reads "Mark Taylor". The signature is written in a cursive style with a large, prominent 'M' and 'T'.

Mark Taylor CPFA, Assistant Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

30 September 2010