

FALKIRK COUNCIL

Subject: FINANCIAL OUTTURN 2014/15
Meeting: FALKIRK COUNCIL
Date: 24 JUNE 2015
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 This report presents the financial position of the Council for 2014/15 based on the position as at March 2015. The draft accounts process is almost complete and the figures are subject to final audit review. Any further adjustment to these figures will be reported back to Members.

2. GENERAL FUND

- 2.1 Appendix 1 sets out both General Fund net expenditure by Service and how it is financed. Movements between budget and projected outturn are expressed in monetary and percentage terms.

Net expenditure is currently forecast to be £2.870m above the approved budget, a decrease of £0.601m from the previously reported position. Spending pressures within Education and Social Work Services were slightly less than predicated and ongoing management actions as instructed by Members to control costs, such as the recruitment freeze for specific posts, have helped to reduce the projected overspend. As will be evident from the narrative below, the overspend is primarily attributable to the position with Social Work.

The reasons for significant overall deviations from budget are described below:-

- 2.2 Education Services (over budget by £0.443m; 0.3%)
The projected overspend is £0.440m less than previously reported. Overall operational costs are slightly less than anticipated, in particular employee costs and expenditure on residential schools. In addition, the expenditure required to fund nursery provision for 2 year olds has been less than initial Scottish Government estimates. Whilst this has helped this year's budget position, it is anticipated that public awareness campaigns will assist with increasing the uptake during 2015/16.

Social Work (over budget by £3.343m; 3.7%)

The pressures facing Social Work were set out in a report by the director presented to the September meeting of the Executive. Significant pressure of demand on Children's residential schools (£0.6m), Children's Residential Care (£1.3m), Foster Care (£0.8m), Adult 24 hour care (£2.6m) and Adult Care purchasing (£2.6m) are partially offset by savings in staff costs arising from vacancies (£1.7m), higher levels of income from Adult Residential Care (£1.7m), contributions from Health (£0.7m) and government grants and re-imbursements (£0.4m). The higher levels of income are largely as a result of the higher volumes of care purchasing, increasing the number of people requiring care and resulting in higher numbers of people paying a contribution towards their care.

Demand for care services is volatile and unpredictable and this placed severe pressure on budgets during the financial year. The number of children looked after away from home increased by approximately 15% in the 12 months ending December 2014. The number of people assessed for community care services increased by 8% over the same period which led to:

- a 4% increase in the number of people over 65 receiving home care services and a 12% increase in the number of hours of care purchased
- an 18% increase in the people over 65 requiring home care during evenings and weekends
- a 6% increase in the number of hours of home care hours provided for all age groups
- a 6% increase in the number of care home placements purchased.

Development Services (under budget by £0.071m; 0.2%)

The budget is marginally below budget with lower than expected operational expenditure offsetting the costs of the Free After Three Parking, lower income from car parking charges at the Municipal Buildings and savings from the lease buy-out at Central Business Park not being fully realised in the current financial year.

Corporate & Neighbourhood Services (under budget by £0.459m; 3.1%)

The underspend is largely unchanged from the position reported in January, and is largely a result of a reduction in overtime and other staff costs across the Service and also reduced spot hires and other transport savings in Refuse Collection.

Miscellaneous Services (over budget by £0.405m; 3.2%)

A significant part of the overspend is due to increased uptake of the Scottish Welfare Fund, which underspent in 2013/14. A number of measures were put in place with the aim of ensuring uptake was maximised in the 2014/15, resulting in an increased cost. However, over the two financial years, expenditure was in line with the resources available.

Central Support Services (under budget by £0.856m; 3.7%)

An underspend on staffing costs reduced the overall costs of Central Support Services to the General Fund by £0.857m. Higher savings in employee costs as a result of vacancies is the main reason for the movement from the previously reported position.

Compensatory Lump Sums (£1.124m)

Compensatory lump sums totalling £1.124m have been paid to individuals who have left the Council under Voluntary Severance arrangements during 2014/15. Related savings will accrue in future years.

General Revenue Funding (over budget by £0.271m; 0.1%)

At the end of the financial year the Council received a greater share of funding than was initially anticipated for the council tax reduction scheme.

Council Tax (over budget by £1.004m; 2.0%)

A combination of factors has increased the council tax yield in particular the reduced cost of the council tax reduction scheme, which has been reflected nationally and is maybe an indication of financial recovery in the economy. There is also an ongoing improvement in the collection rate which in turn has reduced the bad debt provision.

3. TRADING ACCOUNT

- 3.1 The overall surplus of Building Maintenance is very close to budget.

4. HOUSING REVENUE ACCOUNT

- 4.1 Overall, the HRA (Appendix 2) is broadly in line with budget. There were savings in support services, staff costs and supplies & services together with additional rental income from commercial properties. These savings were utilised in a number of areas across the Housing Revenue Account, including Estates improvement work and also to provide additional CFCR to augment the resources available to undertake housing investment.
- 4.2 The balance brought forward at 31 March 2014 was £5.093m. The HRA reserve will be maintained over the longer term in a planned manner in order to ensure that there are sufficient funds to meet funding of the HRA capital investment programme.

5. GENERAL FUND RESERVES UPDATE

- 5.1 The Council policy on its Reserves Strategy was approved by the Executive on 13 January 2015. In respect of the Council's Uncommitted General Fund, the policy provides for 2% of annual revenue expenditure to be held as a contingency against unforeseen events and emergencies. The Reserves Strategy also states that the purpose of each earmarked Reserve must be clearly understood and highlights the requirement for an agreed protocol for use which accords with the Council's priorities and can enable the use of these Reserves to better feed into the budget process. Any sums deemed surplus, should properly be returned to the Uncommitted General Fund. Overall the earmarked funds remain committed to specific projects.
- 5.2 The following paragraphs provide an update on the expenditure and transfers in respect of the Council's reserves and earmarked funds. A summary of the transactions and balances is included at Appendix 3.
- 5.3 **Repairs and Renewals Fund**

The movements on the fund are detailed as follows:

Printworks

It is planned to build up the fund to replace the current 4 colour press in 2018/19.

Roads

A sum of £0.075m was used to purchase vehicles in 2014/15 with most of the remaining balance earmarked for improvements to Earls Roads Depot.

Waste Strategy

The funding of £0.619m has been allocated to continually improve recycling infrastructure and to make ongoing improvements to both Kinneil and Roughmute.

Flood Prevention

Expenditure undertaken in 2014/15 included flooding works at the Glensburgh pumping station. The balance of £0.391m will be used towards the purchase of an Aquawhale and ongoing planned expenditure on flood prevention.

Birkhill Claymine Demolition

The funding is used to conclude the mine abandonment process.

Pavilion Improvement

Funds for commissioning works to upgrade local pavilions and other projects of community benefit.

Public Realm – Bo'ness and Muirhouses

A sum of £0.045m was used to complete public realm works at Bo'ness and Muirhouses.

Planning Enquiry

Funding of £0.060m was spent on a planning enquiry.

Social Work Services Properties

The fund was established to enable critical work to be undertaken across a range of care facilities and other premises. This work will enable registered services to meet Health and Safety requirements and will enable essential refurbishment of office premises, as identified by condition surveying. It is proposed that £0.270m will be utilised to help fund the new care home at Summerford.

Vehicles

A further sum of £0.525m has been transferred to augment funding for the vehicle replacement programme in future years and £0.030m has been spent on the installation of vehicle tracking equipment.

General Fund Housing

As highlighted in my previous report to the Executive on 8 October 2013, it is proposed to use the reserve in two primary ways. Firstly, the reserve will be used to help augment Scheme of Assistance funds and secondly to mitigate the impacts arising from changes to HRA accounting treatment and in particular the allocation of costs between HRA and General Fund Housing.

Mobile & Flexible Working

A report was presented to the Executive in December 2014 detailing a project on Mobile and Flexible working. A provision of £0.167m has been provided to help cover the additional revenue resources required to undertake the project.

Enterprise Subscription Agreement

The sum of £0.123m was used to pay the first annual instalment of a major software agreement. Provision has been made in the revenue budget to meet future instalments.

Other Balances

A sum of £0.020m originally allocated to pay for residual costs following the dilapidation works at Drummond House will now be used as a contribution to the budget savings in 2015/16. Receipt of income from overpaid water charges for Trust properties is being used for lift maintenance work at the Mariner Centre.

5.4 **Earmarked Reserves**

The movements on the Earmarked Reserves are detailed as follows:

Devolved Schools Management

The balance on the fund of at 31/03/15 was £4.9m. Included in the balance is a total of £2.9m which reflects timing differences between the academic and financial years mainly in respect of balances held at individual school level use by headteachers. The remaining balance of £2m is being used to support ongoing school capacity improvement work and act as a buffer if issues arise which affect the full achievement of planned budget savings.

Economic Development

The fund assists with the delivery of economic projects where the Council has a significant property related interest. The balance on the fund at 31/03/15 was £1m. The reserve was primarily utilised to fund tourism signs and complete landscape initiatives. After taking into account that circa £0.2m will be used to balance the budget in 2015/16, the remaining balances will be used to support the following:

- Property maintenance/upgrade (using dilapidation income from outgoing tenants) - £0.284m
- Falkirk Townscape Heritage Initiative - £0.380m
- Business Support/Landscape Initiatives - £0.219m

Central Energy Efficiency Fund

The fund is utilised to support energy management projects. Anticipated savings from projects are used to replenish the fund. The balance on the fund is £0.456m.

Insurance Fund

The position on the Insurance Fund following the actuarial valuation has previously been reported to Committee and in particular the uncertain future liability from MMI entering administration was highlighted. The balance on the fund at 31 March 2015 was £4.826m.

Spend to Save

The Council agreed to set up an earmarked reserve to fund the front end costs associated with Spend to Save proposals. The net appropriation of £0.430m from Spend to Save is a result of Members agreeing to increase the fund by £0.570m and then replacing the £1m allocated for new Health & Fitness Suite at Stenhousemuir with Prudential Borrowing. The balance on the fund is £2.6m and will be primarily used towards the Rehab Group proposals for the factory unit at the Central Business Park and to cover the cost of voluntary severance payments.

5.5 **General Fund Balance**

Appendix 1 shows a balance of £8.369m at 31/03/15 which is within the Reserves Strategy range of £6.6m to £10m. However over the course of the financial year the Council's General Fund has reduced by circa £4m. Going forward reductions of this magnitude will be unsustainable and expenditure will require to be managed within budget by Services, with actions taken to address any emerging spend pressures.

5.6 Capital Reserves

Capital Receipts Reserve

As noted in previous reports, this Reserve comprises proceeds from the sale of Council Assets. The movement on this Reserve is as detailed below:

| | GF £'m | HRA £'m | TOTAL £'m |
|---------------------------------|-------------------|--------------------|----------------------|
| Balance at 1 April 2014 | 2.818 | 2.237 | 5.055 |
| Receipts in year | 0.856 | 3.437 | 4.293 |
| Applied to Capital Programmes | (0.320) | (3.250) | (3.570) |
| Balance at 31 March 2015 | 3.354 | 2.424 | 5.778 |

It should be noted that the projected General Fund Balance at 31 March 2015, includes £1.634m of Business Property Re-investment receipts.

The deployment of this reserve, together with the one below, will be reviewed as part of the Capital Programme Budget process.

Capital Grants Unapplied Accounts

As noted in previous reports, this Reserve comprises Section 75 contributions from developers as well as capital grants/contributions for which conditions often apply. The movement on this Reserve is as detailed below:

| | GF £'m | HRA £'m | TOTAL £'m |
|---------------------------------|-------------------|--------------------|----------------------|
| Balance at 1 April 2014 | 3.291 | 1.082 | 4.373 |
| Receipts in year | 0.186 | - | 0.186 |
| Applied to Capital Programmes | (0.690) | - | (0.690) |
| Balance at 31 March 2015 | 2.787 | 1.082 | 3.869 |

It should be noted that the projected General Fund Balance at 31 March 2015 includes £0.504m of Business Property Re-investment receipts in relation to ERDF grants for the historical Alcan project.

6. CONCLUSION

- 6.1 Net General Fund expenditure is £2.870m (0.9%) higher than assumed in setting the 2014/15 Budget. The varied factors which have had a material impact on spending levels are explained in Section 2 above.
- 6.2 Para 5.5 has outlined the position with the General Fund Balance and the need to ensure that any emerging spend pressures are addressed going forward.
- 6.3 Spending within the Housing Revenue Account is in line with budget, leading to year-end reserves of £5.093m which will be deployed in a planned manner over time.
- 6.4 Finally, it should be noted that the above figures are subject to any adjustments that may arise from the audit process.

7. RECOMMENDATIONS

Members are invited to:-

- (i) note the Council's year-end financial position for 2014/15;
- (ii) note the transfers to the Repairs & Renewals Fund and Earmarked Reserves as outlined at Appendix 3.

Chief Finance Officer

Date : 2 June 2015

LIST OF BACKGROUND PAPERS

- 1. Financial Monitoring Statements 2014/15

Any person wishing to inspect the above background papers should telephone Falkirk (01324) 506388 and ask for Danny Cairney/Bryan Smail.

Appendix 1

FALKIRK COUNCIL

GENERAL FUND

PROJECTED REVENUE OUTTURN STATEMENT 2014/15 AS AT 31/03/15

| | Budget | Projected | (Fav)/ Adv | |
|--|----------------|------------------|-------------------|--------------|
| | £'000 | Outturn | Variance | % |
| | £'000 | £'000 | £'000 | % |
| Education Services | 174,819 | 175,262 | 443 | 0.3 |
| Social Work Services | 90,015 | 93,358 | 3,343 | 3.7 |
| Development Services | 35,595 | 35,524 | (71) | (0.2) |
| Corporate & Neighbourhood Services | 14,859 | 14,400 | (459) | (3.1) |
| Miscellaneous Services | 12,717 | 13,122 | 405 | 3.2 |
| Central Support Services | 23,204 | 22,348 | (856) | (3.7) |
| Less: Central Support Recharges | (23,204) | (23,204) | - | - |
| Trading Accounts | (949) | (938) | 11 | 1.2 |
| Sub - Total | 327,056 | 329,872 | 2,816 | 0.9 |
| Falkirk Community Trust | 13,085 | 13,085 | - | - |
| Valuation | 1,251 | 1,251 | - | - |
| Capital Financed from Current Revenue | 500 | 500 | - | - |
| Compensatory Lump Sums (Voluntary Severance) | - | 1,124 | 1,124 | - |
| Transfers to/(from) Earmarked Funds | (703) | (688) | 15 | 2.1 |
| Adj. for Capital Financing Costs / Capital Charges | (8,193) | (7,963) | 230 | 2.8 |
| NET EXPENDITURE | 332,996 | 337,181 | 4,185 | 1.3 |
| Financed By : | | | | |
| General Revenue Funding | 204,917 | 205,188 | (271) | (0.1) |
| Non-Domestic Rates | 74,307 | 74,307 | - | - |
| Council Tax / Council Tax Reduction Scheme | 52,272 | 53,316 | (1,044) | (2.0) |
| NET INCOME | 331,496 | 332,811 | (1,315) | (0.4) |
| SURPLUS/(DEFICIT) | (1,500) | (4,370) | 2,870 | 0.9 |
| Add : General Fund Surplus as at 1 April 2014 | | 12,309 | | |
| Appropriation from Spend to Save | | 430 | | |
| Projected General Fund Balance as at 31 March 2015 | | 8,369 | | |

Appendix 2

| | | | | |
|--|--|--|--|--|
| FALKIRK COUNCIL | | | | |
| HOUSING REVENUE ACCOUNT | | | | |
| PROJECTED REVENUE OUTTURN STATEMENT 2014/15 AS AT 31/03/15 | | | | |

| | Budget | Projected | (Fav)/ Adv | | Previous |
|--|---------------|------------------|-------------------|----------|-------------------|
| | £'000 | Outturn | Variance | % | Projection |
| | | £'000 | £'000 | | £'000 |
| Employee Expenses | 6,638 | 5,914 | (724) | (10.9) | 6,230 |
| Property Expenses | 25,582 | 25,360 | (222) | (0.9) | 25,680 |
| Transport Expenses | 32 | 7 | (25) | (78.1) | 4 |
| Supplies and Services | 4,011 | 3,908 | (103) | (2.6) | 3,855 |
| Third Party Payments | 1,965 | 2,084 | 119 | 6.1 | 2,015 |
| Support Services | 3,900 | 3,799 | (101) | (2.6) | 3,700 |
| Capital Charges | 12,307 | 13,133 | 826 | 6.7 | 13,316 |
| Compensatory Lump Sums | - | 32 | 32 | - | - |
| Gross Expenditure | 54,435 | 54,237 | (198) | (0.4) | 54,800 |
| Income | 54,435 | 54,237 | 198 | 0.4 | 54,800 |
| Surplus/(Deficit) | - | - | - | | - |
| Add: Surplus brought forward at 1 April 2014 | | 5,093 | | | |
| Projected Surplus at 31 March 2015 | | 5,093 | | | |

ANALYSIS OF REPAIRS & RENEWALS FUND

| Service | Description | Balance 01/04/14 £'000 | Spend £'000 | Transfers £'000 | Balance 31/03/15 £'000 |
|-----------------|-----------------------------------|---------------------------------------|------------------------|----------------------------|---------------------------------------|
| Chief Executive | Printworks | 206 | - | - | 206 |
| Development | Roads | 155 | (75) | - | 80 |
| | Waste Strategy | 619 | - | - | 619 |
| | Flood Prevention | 416 | (150) | 125 | 391 |
| | Birkhill Mine Demolition | 35 | (8) | - | 27 |
| | Pavilion Improvement | 50 | - | - | 50 |
| | Public Realm Bo'ness/Muirhouses | 45 | (45) | - | - |
| | Planning Enquiry | 92 | (60) | - | 32 |
| Social Work | Older People's Accommodation | 1,333 | - | - | 1,333 |
| Corp & N'Hood | Vehicle Tracking Systems | 30 | (30) | - | - |
| | Vehicle Replacement Programme | 350 | - | 525 | 875 |
| | General Fund Housing | 897 | - | - | 897 |
| | Mobile & Flexible Working | | | 167 | 167 |
| | Enterprise Subscription Agreement | 123 | (123) | - | - |
| Other | Drummond House Dilapidations | 20 | - | - | 20 |
| | Mariner Centre | | - | 37 | 37 |
| | Interest on Balances | | | 10 | 10 |
| TOTAL | | 4,371 | (491) | 864 | 4,744 |

ANALYSIS OF EARMARKED RESERVES

| Description | Balance 01/04/14 £'000 | Spend £'000 | Transfers £'000 | Balance 31/03/15 £'000 |
|-----------------------------|---------------------------------------|------------------------|----------------------------|---------------------------------------|
| Devolved Schools Management | 5,656 | (2,446) | 1,688 | 4,898 |
| Economic Development | 1,407 | (533) | 209 | 1,083 |
| Central Energy Efficiency | 439 | - | 17 | 456 |
| Insurance | 4,568 | - | 258 | 4,826 |
| Spend to Save | 3,597 | (553) | (430) | 2,614 |
| TOTAL | 15,667 | (3,532) | 1,742 | 13,877 |