

FALKIRK COUNCIL

Subject: FINANCIAL POSITION 2015/16
Meeting: EXECUTIVE
Date: 20 October 2015
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report presents the financial position of the Council for 2015/16 and reflects the situation as at 30 September 2015. The opportunity is also taken to update Members on the position with the Reserves consistent with the policy approved by the Executive in January 2015.
- 1.2 Recent approved changes to the Council's structure, effective from August 2015, have been reflected in the financial statements.

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 £0.275m below the approved budget. This is a movement of £0.380m from the previously reported position in August. The main spending pressures are still attributable to both Children's and adult Social Work. Recent reports to the Scrutiny Committee have provided information on these areas along with proposals to address the situation. Underspends in other Services and the £2m provided in the budget for spending pressures have absorbed these pressures.

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

- 2.2 Children's Services – Education (under budget by £0.304m; 0.2%)
At this stage in the financial year the educational element of the Service is projecting slightly below budget, with higher residential school costs of £0.480m being offset by higher school meal income totalling £0.150m and savings in employee costs of £0.180m, property costs of £0.210m and school meal provision of £0.260m. This projection is based on the Service continuing to demonstrate that it can meet both the required savings targets and also the commitment to maintain teacher numbers, in line with the Scottish Government's prescribed pupil: teacher ratio. The Service is also in the final stages of the phased roll out of the new Early Years Campuses and providing additional capacity to meet the increase in demand for places from 2 year olds. Once the actual demand for Early Years places is known the Service will be able to review and finalise existing budgeted resources accordingly.

Children's Services – Social Work (over budget by £1.390m; 6.5%)

Keeping the costs of children's residential care within budget is still the most significant financial challenge facing the Service. Current projections indicate a reduction in the projected overspend of circa £0.4m from the August report. This is primarily due to costs no longer being incurred for a number of children, who were previously placed in the most expensive residential accommodation, reaching the age of eighteen. Overall, though, this remains a highly volatile area.

Social Work Adult Services (over budget by £1.400m; 2%)

As previously reported there are significant demand pressures on service provision, in particular Adult 24 hour care and Adult Care purchasing. These demand pressures have seen the projected overspend increase from £0.8m to £1.4m, with no immediate indication that these pressures are easing. As noted above the report to the Scrutiny Committee has outlined a series of actions aimed at addressing the situation and reducing the overspend.

Development Services (over budget by £0.017m; 0.0%)

The Service is broadly in line with budget, with previously reported adverse variations arising from lower income due from commercial rents of £0.235m and car parking charges of £0.130m being largely offset by higher income anticipated from the crematorium and burials of £0.320m. In part the increased income is due to the delay in closing the crematorium for refurbishment, which was initially expected to happen during the current financial year.

Corporate & Housing Services (under budget by £0.397m; 8.1%)

The underspend is largely as a result of reduced staff costs and increased income within General Fund Housing which now includes Welfare Advice and Assessment.

Central Support Services (under budget by £0.725m; 3.1%)

An underspend on staffing costs across all central support services is likely to reduce the overall costs of Central Support Services to the General Fund by £0.725m.

Miscellaneous Services (over budget by £0.351m; 3.1%)

The variance in Miscellaneous Services principally reflects the projected additional costs flowing from the pay award. The current pay negotiations have still not been formally concluded, however, it is anticipated that the overall pay award of 1.5% in 2015/16 and 1% in 2016/17 (budgeted 1.25% in both years) plus changes to the living wage will add circa £0.5m to the costs budgeted for 2015/16. Once these negotiations are completed, the actual costs incurred will be reflected in the relevant Services.

Compensatory Lump Sums (£1.326m)

The cost of compensatory lump sums paid as a result of employees leaving through voluntary severance stands at £1.326m. Savings will accrue in future years.

Council Tax (over budget by £1.310m; 2.5%)

The welcome increase in the council tax yield follows on from the previous financial year and is due to a combination of factors, such as the reduced cost of the council tax reduction scheme and an ongoing improvement in the collection rate.

3. WORKFORCE CHANGES

3.1 Members will be aware of the requirement for Services to reduce staff numbers by c100 FTE in 2015/16 and c330 FTE in 2016/17. In order to manage this Services must follow a framework which includes:-

- non-filling of vacancies where possible;
- a review of all temporary employees and agency workers, ending contracts where possible;
- any other options to achieve savings through voluntary means;
- severance.

3.2 To date, progress is as follows:

	No of Posts	
	2015/16	2016/17
Seeking Redeployment	63	
Severance	91	27

Overall, from June 14 to June 15, headcount and FTE have reduced as follows:

	June 2014	June 2015
Headcount	7,432	7,239
FTE	6,257	6,094

4. TRADING ACCOUNT

4.1 The projected overall surplus of Building Maintenance is marginally higher than budgeted.

5. HOUSING REVENUE ACCOUNT

5.1 Overall, the HRA (Appendix 2) is projected to be broadly in line with budget. Savings in staff costs and operational expenditure are anticipated, together with additional rental income from commercial properties. These savings will be utilised in a number of areas across the Housing Revenue Account, including Estates improvement work and also to provide additional Capital Financed from Current Revenue [CFCR] to augment the resources available to undertake housing investment.

5.2 The reserve balance brought forward at 1 April 2015 was £5.093m and no application from reserves is planned for 2015/16, with the current projected level of reserves considered to be prudent to meet future revenue and capital investment requirements. This level is in line with the Scottish average of c10% of annual expenditure.

6. GENERAL FUND RESERVES

6.1 The Council policy on its Reserves Strategy was reviewed and 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.

6.2 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.

6.3 Repairs and Renewals Fund

The significant balances and movements on the fund are detailed as follows:

Printworks (£0.206m)

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

Roads (£0.080m)

This balance will be used in 2015/16 to fund improvements to the Earls Road Depot, including upgrading the CCTV.

Waste Strategy (£0.619m)

The Fund is required to support the purchase of recycling bins, undertake recycling centre maintenance and to upgrade and assist with expanding the recycling provision.

Flood Prevention (£0.395m)

The anticipated £0.395m in the current financial year for flood prevention initiatives includes £0.265m for the purchase of a Vactor Unit, a vehicle with high pressure cleaning equipment for clearing drains and culverts, with the balance of £0.130m being used as a contribution towards the costs associated with on-going ecology and ornithology work for the Grangemouth Flood Protection Scheme.

Social Work Services Properties (£1.335m)

The Fund will be deployed 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. Condition surveys of all properties have been undertaken with £0.916m committed to facilitate the highest priority work (£0.646m in the current financial year), with the balance of £0.419m still to be deployed.

Vehicle Replacement (£0.879m)

A sum of £0.879m has been transferred to augment funding for the vehicle replacement programme with £0.350m due to be spent in the current financial year. A further £0.200m will be spent in 2016/17 and the balance of £0.329m in 2017/18. This application of reserves is necessary to help fund the replacement of refuse collection vehicles in 2017-19.

General Fund Housing (£0.897m)

Further consideration has been given to this fund and it is proposed to use the fund to upgrade and re-model existing hostel and other accommodation. The works will assist in meeting housing needs for young people and those suffering from addiction and mental well-being issues. It is anticipated that the spend will be in 2016/17 and will help to reduce future accommodation and support costs.

Mobile & Flexible Working (£0.167m)

In December 2014 a report was presented to the Executive detailing a project on Mobile and Flexible working. A sum of £0.167m was provided to help cover the additional revenue resources required to undertake the project with £0.068m due to be spent in the current financial year and the balance of £0.099m in 2016/17.

6.4 **Earmarked Reserves**

The position with each of the five funds is as follows:

Devolved Schools Management (£4.898m)

The balance on the fund at 01/04/15 was £4.9m. Included in the balance is a total of £2.1m which reflects timing differences between the academic and financial years mainly in respect of balances held at individual school level for use by headteachers during the remaining months of the academic year, April to June. These balances are replenished by retaining balances at the end of each financial year.

The remaining balance of £2.8m 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. It is anticipated that £2m will require to be utilised in the current financial year.

Taking the above factors into account, it is anticipated that that balance at 31/03/16 will be £2.2m.

Economic Development (£1.083m)

The fund assists with the delivery of economic projects where the Council has a significant property related interest. The balance on the fund at 01/04/15 was £1.083m. After taking into account that circa £0.2m will be used to balance the budget in the current financial year as agreed by Members in February, the remaining balance will be used to support the following:

- Property maintenance/dilapidations works at Meeks Road, Almond Court and Victoria Mills (Bo'ness) - £0.284m
- Business Support/Landscape Initiatives including delivery of tourism signage works - £0.219m
- Falkirk Townscape Heritage Initiative, contribution to project delivery including public realm works, to be committed by end September 2017 - £0.380m

Central Energy Efficiency Fund (£0.456m)

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 (£4.826m)

The position on the Insurance Fund following the actuarial valuation in 2012 has previously been reported to Members and in particular the uncertain future liability from MMI entering administration was highlighted. The Fund is revalued every three years to ensure that the balance is sufficient to meet current and future anticipated claims. The 2015 valuation is being carried out by Milliman, a company who specialise in providing actuarial services. The results of this valuation will be reported back to Members in due course. The balance on the fund at 1 April 2015 was £4.826m. The movement on the Fund is reported at the year end once the final position is known in terms of the value of claims made and insurance settlements received.

Spend to Save (£2.614m)

The Council agreed to set up an earmarked reserve to fund the front end costs associated with Spend to Save proposals. Of the balance available, £0.7m is to be used over the next 3 years towards the Rehab Group proposals for the factory unit at Central Business Park, £0.2m for refreshing the teaching profession and £0.1m to enable Social Work staff to be trained as Mental Health Officers. The remaining balance of circa £1.6m will help to cover the cost of voluntary severance payments as previously agreed by Members.

6.5 **General Fund Balance**

Appendix 1 shows a projected balance of £8.644m at 31/03/16, with the overspend in both Children's and Adult Social Work's expenditure largely offset by the £2m built into the budget for spending pressures and projected savings in other Services. The balance sits within the approved strategy range of £6.6m - £10m.

6.6 **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 2015	3.354	2.424	5.778
To be applied to 15/16 Capital Programmes	(1.160)	-	(1.160)
Projected Balance at 31 March 2016	2.194	2.424	4.618

It should be noted that the projected General Fund Balance at 31 March 2016, includes £1.6m of Business Property Re-investment receipts.

Further application of the Capital Receipts Reserve will be reviewed as part of the budget process for the roll forward of the Capital Programmes.

As part of the 2015/16 Revenue Budget process, Members approved the potential to deploy capital receipts to meet the costs of voluntary severance. To the extent that course of action is taken, capital receipts will be replaced by borrowing.

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 2015	2.787	1.082	3.869
To be applied to 15/16 Capital Programmes	(0.090)	-	(0.090)
Balance at 31 March 2016	2.697	1.082	3.779

It should be noted that the projected General Fund Balance at 31 March 2016 includes £0.504m of Business Property Re-investment receipts in relation to ERDF grants for the historical Alcan project.

Further application of the Capital Grants Unapplied Account will also be reviewed as part of the budget process for the roll forward of the Capital Programmes.

7. CONCLUSION

- 7.1 Net General Fund expenditure is currently forecast to be marginally below the overall assumptions made in setting the 2015/16 Budget. Significant variations within budget headings are explained in Section 2 above.
- 7.2 Spending within the Housing Revenue Account is in line with budget, leading to projected year-end reserves of £5.093m which will be deployed in a planned manner over time.

8. RECOMMENDATIONS

Members are invited to:-

- (i) note the Council's projected year-end financial position for 2015/16;**
- (ii) note the position with reserves**

Director of Corporate & Housing Services
Date: 23 September 2015

LIST OF BACKGROUND PAPERS

1. Financial Monitoring Statements 2015/16

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

FALKIRK COUNCIL

GENERAL FUND

PROJECTED REVENUE OUTFURN STATEMENT 2015/16 AS AT 30/09/15

	<u>Budget</u>	<u>Projected</u>	<u>(Fav)/ Adv</u>		<u>Previous</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>%</u>	<u>Projection</u>
Childrens Services - Education	174,518	174,214	(304)	(0.2)	174,858
Childrens Services - Social Work	21,475	22,865	1,390	6.5	23,275
Social Work - Adult Services	69,865	71,265	1,400	2.0	70,665
Development Services	43,502	43,519	17	0.0	43,867
Corporate & Housing Services	4,895	4,498	(397)	(8.1)	4,650
Miscellaneous Services	11,450	11,801	351	3.1	11,450
Central Support Services	23,596	22,871	(725)	(3.1)	22,885
Less: Central Support Recharges	(23,596)	(23,596)	-	-	(23,574)
Trading Accounts	(752)	(775)	(23)	3.1	(752)
Provision for Budget Pressures	2,000	-	(2,000)	(100.0)	-
Sub - Total	326,953	326,662	(291)	(0.1)	327,324
Falkirk Community Trust	12,660	12,660	-	-	12,660
Valuation	1,119	1,119	-	-	1,119
Compensatory Lump Sums	-	1,326	1,326	-	900
Transfers to/(from) Earmarked Funds	(400)	(400)	-	-	(400)
Adj. for Capital Financing Costs / Capital Charges	(4,472)	(4,472)	-	-	(4,472)
NET EXPENDITURE	335,860	336,895	1,035	0.3	337,131
Financed By :					
General Revenue Funding	220,818	220,818	-	-	220,818
Non-Domestic Rates	62,336	62,336	-	-	62,336
Council Tax / Council Tax Reduction Scheme	52,706	54,016	(1,310)	(2.5)	53,850
NET INCOME	335,860	337,170	(1,310)	(0.4)	337,004
SURPLUS/(DEFICIT)	-	275	(275)	(0.1)	(105)
Add : General Fund Surplus as at 1 April 2015		8,369			
Projected General Fund Balance as at 31 March 2016		8,644			

Appendix 2

FALKIRK COUNCIL
HOUSING REVENUE ACCOUNT
PROJECTED REVENUE OUTTURN STATEMENT 2015/16 AS AT 30/09/2015

	<u>Budget</u> £'000	<u>Projected</u> <u>Outturn</u> £'000	<u>(Fav)/ Adv</u> <u>Variance</u> £'000	%	<u>Previous</u> <u>Projection</u>
Employee Expenses	6,848	6,236	(612)	(8.9)	6,598
Property Expenses	25,979	25,789	(190)	(0.7)	25,979
Transport Expenses	8	8	-	-	8
Supplies and Services	4,348	3,847	(501)	(11.5)	3,847
Third Party Payments	1,796	1,521	(275)	(15.3)	1,664
Support Services	4,007	3,907	(100)	(2.5)	3,907
Capital Charges	13,498	15,220	1,722	12.8	14,603
Gross Expenditure	<u>56,484</u>	<u>56,528</u>	<u>44</u>	<u>0.1</u>	<u>56,606</u>
Income	56,484	56,528	(44)	(0.1)	56,606
Surplus/(Deficit)	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
Add: Surplus brought forward at 1 April 2015		5,093			
Projected Surplus at 31 March 2016		<u>5,093</u>			

ANALYSIS OF REPAIRS & RENEWALS FUND

Service	Description	Balance 01/04/15 £'000	Spend £'000	Transfers £'000	Balance 31/03/16 £'000
Chief Executive	Printworks	206	-	-	206
Development	Roads	80	(80)	-	-
	Waste Strategy	619	-	-	619
	Flood Prevention	395	(395)	-	-
	Birkhill Mine Demolition	27	(27)	-	-
	Pavilion Improvement	50	(50)	-	-
	Planning Enquiry	32	(10)	-	22
Social Work	Older People's Accommodation	1,335	(646)	-	689
Corp & Housing	Vehicle Replacement Programme	879	(350)	-	529
	General Fund Housing	897	-	-	897
	Mobile & Flexible Working	167	(68)	-	99
Other	Drummond House Dilapidations	20	(20)	-	-
	Mariner Centre	37	(37)	-	-
TOTAL		4,744	(1,683)	-	3,061

ANALYSIS OF EARMARKED RESERVES

Description	Balance 01/04/15 £'000	Spend £'000	Transfers £'000	Balance 31/03/16 £'000
Devolved Schools Management	4,898	(3,300)	600	2,198
Economic Development	1,083	(200)	-	883
Central Energy Efficiency	456	-	-	456
Insurance	4,826	-	-	4,826
Spend to Save	2,614	(610)	-	2,004
TOTAL	13,877	(4,110)	600	10,367