

The background of the slide features a large, light blue watermark of the Coat of Arms of the Isle of Man. The coat of arms consists of a shield divided into four quarters. The top-left quarter shows a ship, the bottom-left a ship on waves, the top-right a stag's head with antlers, and the bottom-right a bird with spread wings. Above the shield is a crown with four fleurs-de-lis. A ribbon at the bottom contains the motto 'ANE FOR A'.

Agenda Item 7

Financial Outturn 2016/17

Falkirk Council

Title: Financial Outturn 2016/17
Meeting: Executive
Date: 13 June 2017
Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 This report presents an update on the financial position of the Council for 2016/17. The final accounts process is underway and the figures will be subject to final audit review. Any further adjustments to these figures will be reported back to the Executive.

2. Recommendations

2.1 The Executive is invited to:

- (i) **Note the Council's year-end financial position for 2016/17**
- (ii) **Note the transfers to the Repairs and Renewals Fund and Earmarked Reserves as outlined at Appendix 3**

3. Background

- 3.1 Following the Council's approved 2016/17 budget in February 2016, and update reports to Executive in August, October and January, this report provides an outturn comparison with the budget.

4. Considerations

4.1 General Fund

- 4.1.1 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.

- 4.1.2 Net expenditure at the 31 March 2017 is forecast to be £329.1m which is £3.176m (1.0%) below the resources available. This is a movement of £1.151m (0.35%) from the position at January and is mainly due to favourable movements in Service Expenditure as detailed in 4.1.3. The main spending pressures are attributable to the cost of employee related liabilities. However this has been offset by the £1.5m provided in the budget for spending pressures.
- 4.1.3 The reasons for significant overall deviations from budget are described below:-

Children's Services – (under budget by £0.854m; 0.5%)

(i) Education (under budget by £1.473m)

At the year end, the Education Division was under budget by £1.473m. This is an increase on the previously reported underspend as £0.550m of probationers' funding has been earmarked and carried forward to maintain teacher numbers in 17/18. The Service has been successful in meeting its commitment on the prescribed pupil teacher ratio in line with the agreement made with the Scottish Government. In terms of significant variations, higher property costs and strain payments are offset by a reduction in residential schools expenditure, as a result of a reduced number of children in these schools, and lower employee costs due to vacant posts.

(ii) Social Work – Children & Families (over budget by £0.619m)

The overspend is primarily due to the costs associated with providing care packages for children looked after away from home, where the demand remains volatile and unpredictable. Under the direction of the Strategic Review Group savings have been realised by negotiating improved contract bed rates with private care providers who we have existing contract arrangements with and this has improved the overall position. Whilst the Service remains committed to making efficiencies in both fostering and residential placement provision both remain highly challenging and financially volatile areas. Additional costs will also be incurred as a result of new obligations under the Children and Young People Act in relation to kinship care, continuing care and after care provision.

Social Work Adult Services (under budget by £0.533m; 9.1%)

This budget is in large part made up of administration, property and transport costs for Social Work Adult Services that have remained with the Council. It also includes an area of direct social work provision, the mental health officer service. The underspend is principally due to lower expenditure on property costs of £0.3m and an underspend within supporting people £0.1m.

Development Services (under budget by £0.068m; 0.2%)

The Service is broadly in line with budget and represents an improvement of £0.259m from the position previously reported in January. This turnaround has been mainly driven by an increased underspend in Bus Contract of £0.117m, an improvement in car park income of £0.051m and a reduction in gas and electricity costs of £0.151m.

Corporate & Housing Services (under budget by £1.041m; 3.9%)

(i) General Fund Housing (under budget by £0.089m)

There were lower than anticipated staff costs of £440k within Welfare Advice, Homeless and Private Sector Housing. This underspend was offset with the cost of not implementing the Budget savings proposal relating to Garden Aid, with the general fund in-scope amount of £0.275m now passed across to the Integration Joint Board.

(ii) Central Support Services (under budget by £0.604m)

An underspend on staffing costs across all central support services, along with property costs savings within Admin Buildings has reduced the overall costs of Central Support Services to the General Fund by £0.604m.

(iii) Miscellaneous Services (under budget by £0.348m)

There were various underspends across several areas of Miscellaneous Services which were partly offset by reduced interest receipts due to the lower bank rate and the deficit within Printworks.

Integration Joint Board

The Integration Joint Board (IJB) assumed responsibility from April for the delivery of Adult Health & Social Care Services which incorporates a range of functions deemed by legislation to be in scope. To date, a net sum of £61.261m (£59.521m from the General Fund) has been passed to the IJB for delegation back to the Council. It is for the IJB to ensure services are commissioned and delivered within resources available, although Members should be aware that for the Council Services passed over to the IJB, an underspend of £0.585m is being reported, £0.357m of which arises from lower expenditure in Garden Aid and Housing Aid & Adaptations, £0.228m from savings and cost reductions delivered in Adult Social Care through reviewing high cost packages, re-negotiating and harmonising external residential care rates, as well as improving the efficiency of in house services as evidenced by sizable reduction in overtime and casual wages. The underspend will be taken forward into 2017/18 for future utilisation via IJB reserves and in line with the Integration Scheme.

Employee Related Liabilities

The figure of £1.457m relates to cost of compensatory lump sums that have been paid as a result of employees leaving through voluntary severance and an additional provision for anticipated costs of equal pay. In comparison with the reported position to the Executive in January and the Council in February, these costs are £0.933m lower than previously expected.

Capital Financing Costs

An underspend of £0.222m is forecast and is due to a reduction in interest rates reflecting the bank base rate which has reduced from 0.5% to 0.25%.

Council Tax (over budget by £0.385m; 0.7%)

The increase in the council tax yield follows on from the previous financial year's outturn. A combination of factors, such as new properties, retrospective band increases and the reduced cost of the council tax reduction scheme had a material impact. In addition, the increase in Council Tax yield to cover the cost of Garden Aid was not required as these costs were covered by underspends in General Fund Housing.

4.2 Trading Account

- 4.2.1 The overall surplus of Building Maintenance is £0.567m, marginally more than budgeted.

4.3 Workforce Changes

- 4.3.1 The budget savings for 2016/17 required Services to reduce staff numbers by c231 Full Time Equivalent (FTE). 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; and
 - severance.

- 4.3.2 To date, progress with employees seeking redeployment and leaving through voluntary severance is as follows:-

	No of Posts	
	2015/16	2016/17
Seeking Redeployment	95	16
Severance	163	137

Severance - 5 year saving

	2015/16	2016/17
	£'000	£'000
Gross savings	18,780	16,754
Costs	3,213	3,453
Net savings	<u>15,567</u>	<u>13,301</u>

Overall, from March 2016 to March 2017, headcount and FTE have reduced as follows:

	March	March
	2016	2017
Headcount	7,123	7,022
FTE	6,013	5,906

4.4 Housing Revenue Account (HRA)

- 4.4.1 Overall, the HRA was on budget (Appendix 2). There were savings in staff costs and operational expenditure, together with additional rental income from commercial properties. These savings have been utilised in a number of areas across the Housing Revenue Account, including Estates improvement work and provision of additional Capital Financed from Current Revenue [CFCR] to augment the resources available to undertake housing investment. The figure for the HRA incorporates a payment of £1.414m to the IJB for in scope services e.g. garden aid and adaptation expenditure.
- 4.4.2 The reserve balance as at 31 March 2017 was £5.093m. There were no application of reserves in 2016/17. The current projected level of reserves is 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.

4.5 General Fund Reserves

- 4.5.1 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 (giving a range of £6.6m - £10m) 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.
- 4.5.2 Appendix 1 shows a balance of £11.529m at March 2017 prior to applying £3.300m to 2017/18 Budget. The projected balance reported to the Executive in January was £9.080m but after taking into account the £2.870m transferred back to the General Fund from earmarked reserves (see 4.5.6) and additional spend commitments of £1.900m (e.g. equal pay) reported to the Council in February, the revised projected balance was £10.050m.
- 4.5.3 The favourable difference of £1.479m is primarily due to the lower expected costs of £0.933m relating to compensatory lump sums and equal pay. In addition it was noted at the previous Executive meeting that the decision taken by Members on the new Council HQ may require fees to be charged to the General Fund. Although these fees totalled c£1m, the cost to the General Fund in 2016/17 is £0.480m as the remainder of the fees have already been charged to the General Fund indirectly through a Capital Financed from Current Revenue (CFCR) adjustment in 2015/16.
- 4.5.4 Due to the ongoing financial pressures facing by the Council, Members will recall that it was agreed to deploy £3.300m from the General Fund to achieve a balanced budget in 2017/18.
- 4.5.5 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.

4.5.6 Repairs and Renewals Fund

As noted above, as part of the approval of the 2017/18 budget it was agreed to transfer £2.870m back to the General Fund as number of commitments could be incorporated into the capital programme rather than being funded by reserves. These commitments included £0.533m for the vehicle replacements, £0.125m for the crematorium, £0.946m for social work services properties, £0.642m for general fund housing and £0.624m for the Falkirk Townscape Initiative. In addition a further £0.193m was returned to the General Fund for Printworks and lift repairs at the Mariner Centre.

The followings sums have been transferred to the Repairs and Renewals Fund to offset future commitments, including £0.750m for the strategic property review, £0.165m for roads signage and £0.102m for enhancing procurement arrangements. The paragraphs below provide further information on these transfers along with other significant balances over £0.100m carried forward into 2017/18.

Roads Signage (£0.165m)

Following the decision at the Executive meeting on 27 September 2016 it was confirmed that the Council would pursue Decriminalised Parking Enforcement (DPE) in response to Police Scotland withdrawing their traffic warden service. This requires the Council to formally apply to the Scottish Government seeking a Designation Order in accordance with the Road Traffic Act 1991.

The Scottish Government requires Falkirk Council to undertake a review of existing waiting restrictions to ensure that DPE can be properly enforced. This work has been completed and requires remedial works to existing traffic signs and road markings. The Executive agreed that there should be a phased implementation of these remedial works on a priority basis to align with available budgets. Accordingly, a contract was procured with regards to traffic sign renewal/replacement which was awarded on 9 February 2016. The timescale to have the necessary 1,400 signs manufactured has resulted in the contractor not being in a position to mobilise on site until April 2017 which has deferred all expenditure for this contract to financial year 2017/18. Therefore available revenue funds of £0.165m from the Network Maintenance budget have been allocated to Repairs and Renewals to offset the expenditure in the new financial year.

Strategic Property Review (£0.750m)

The Council is undertaking a comprehensive review of its property assets including its leased portfolio. This is anticipated to result in withdrawal from a number of existing leases and provision for the associated removal and dilapidations costs is necessary. As a consequence a sum of £0 750m has been earmarked to assist these works.

Social Work Services Properties (£0.180m)

As noted above a sum of £0.946m will now be funded through the capital programme adding to the planned capital expenditure on Older People's Accommodation. The balance of £0.180m has been retained for revenue repairs on social work properties.

Procurement (£0.102m)

During 2016/17 additional income was generated by the Procurement division through the adoption of volume rebate clauses within a range of tenders. The total unbudgeted additional income is £0.102m. It is proposed that this income is carried forward to support the delivery of a number of spend to save procurement improvement workstreams during 2017/18.

General Fund Housing (£0.267m)

As noted above £0.642m will be funded through the capital programme to upgrade the Council's hostel accommodation to help reduce future accommodation and support costs. The balance of the fund will be utilised by 2017/18.

Citizens Advice Bureau (£0.111m)

In February 2015 an Executive report outlined a proposal to relocate Falkirk's Citizen Advice Bureau to premises in Meeks Road. Funding of £0.203m was identified to meet the estimated fit out costs, including the contribution of £0.111m from Repairs and Renewals Fund. Repairs are currently underway, however, the £0.111m will now be utilised in 2017/18.

Mobile & Flexible Working (£0.247m)

In December 2014 a report was presented to the Executive detailing a project on Mobile and Flexible working. Funding has been provided to help cover the additional revenue costs required to undertake the project. Expenditure of £0.093m was incurred in 2016/17 with the balance of £0.247m being utilised in 2017/18.

4.5.5 Earmarked Reserves

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

Devolved Schools Management (£3.356m)

The balance on the fund at 31 March 2017 is £3.356m. This takes into account a sum of £0.500m transferred back to the General Fund as a contribution to the 2017/18 savings targets and the £0.550m transferred to the fund to offset teaching costs in 2017/18.

Included in the total is a sum of £1.750m, which is mainly in respect of balances held at individual school level for use by headteachers and accounts for ring fenced external funding monies. The remaining balance of £1.606m is principally and prudently earmarked to help manage the expected growth and expansion in early years provision. Increased demand for places from qualifying 2 year olds is anticipated and for the potential increased cost of maintaining teaching numbers in light of increased roll numbers.

Economic Development (£0.369m)

The £0.624m earmarked to support the Falkirk Townscape Initiative will now be funded through the capital programme. This leaves £0.284m for property maintenance/dilapidations works at Meeks Road, Almond Court and Victoria Mills (Bo'ness) and £0.085m for business Support/Landscape Initiatives including delivery of tourism signage works.

Central Energy Efficiency Loan Fund (£0.507m)

The loan fund was initially established in 2004 with money provided by the Scottish Government to enable energy management projects. The Council has provisionally been awarded another £0.500m of match loan funding from Salix, a government funded company which provides grants and loans to public organisations across the UK. In 2016/17, the energy efficiency fund has been used to fund LED lighting replacements in schools, and it is anticipated that the remaining capital will be spent through the Scottish Government's Non-Domestic Energy Efficiency Framework. Proposed works under this framework will be completed by the end of 2017/18, and will improve energy efficiency and reduce costs at up to 15 non-domestic buildings, including schools, leisure centres and care homes.

Insurance Fund (£5.200m)

The Insurance Fund was actuarially valued in 2015, the results of which were previously advised to Members. Although the Fund is considered to be broadly healthy, it does face uncertainty in terms of future MMI claims.

Spend to Save (£3.136m)

The Executive on the 10 January 2017 agreed to fund the following projects

Baler for processing recyclates

The purchase of a baler for processing recyclates will help to ensure the Council maximises income from waste processing and offset increasing costs for managing waste. The cost of the baler has increased from the original estimate of £0.180m to £0.225m, but it is still anticipated that it will generate additional income of £0.145m per annum.

SWIS Project Manager

A project manager has been recruited on a temporary basis to lead on the procurement, implementation and development contract of a new ICT system for Social Work Services. This system will replace the current older and limited in-house system and will offer improvements and efficiencies in business processes, data and information sharing (with Health and other partner agencies), information management, internal accounting and will augment the Council's move to promote flexible and mobile working. The estimated cost of this for a 23 month period is £80,000.

A further proposal to deliver change and c£2.1m savings across the Health & Social Care Partnership will require additional temporary staffing costing £0.325m over the next 12 months.

Of the remaining balance funding of c£1.9m is earmarked to help cover the costs of voluntary severance, with the remaining balance of c£0.6m to fund the Rehab Group proposals for the factory unit at Central Business Park and enabling Social Work staff to be trained as Mental Health Officers. As noted at section 4.1 the voluntary severance costs for 2016/17 were funded by the Council's mainstream resources.

5. Consultation

- 5.1 There is no requirement to carry out a consultation based on the report proposals.

6. Implications

Financial

- 6.1 The financial implications are detailed within the report. Overall the General Fund expenditure is £3.176m below the resources available and the Housing Revenue Account is on budget.

Resources

- 6.2 There are no resource implications arising from the report recommendations.

Legal

- 6.3 There are no legal implications arising from the report recommendations.

Risk

- 6.4 There are no risk implications arising from the report recommendations.

Equalities

- 6.5 EPIAs, as appropriate, were carried out as part of the Budget process which led to these Budget figures.

Sustainability/Environmental Impact

- 6.6 A sustainability assessment was not required.

7. Conclusions

- 7.1 Net expenditure on the General Fund is now forecast to be £329.1m which is £3.176m (1.0%) below the resources available. The projected General Fund balance for 2016/17 is £11.529m prior to the allocation of £3.300m towards balancing the 2017/18 Budget.

- 7.2 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.

Director of Corporate & Housing Services

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Date: 2 June 2017

APPENDICES

Appendix 1 – General Fund Projected Outturn Statement 2016/17

Appendix 2 – Housing Revenue Account Projected Outturn Statement 2016/17

Appendix 3 – Repairs & Renewals Fund and Other Earmarked Reserves

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- **Budget Working Papers**

FALKIRK COUNCIL

GENERAL FUND

PROJECTED REVENUE OUTTURN STATEMENT 2016/17 AS AT 31/03/2017

	<u>Budget</u>	<u>Projected</u>	<u>(Fav)/ Adv</u>		<u>Previous</u>
	<u>£'000</u>	<u>Outturn</u>	<u>Variance</u>		<u>(Fav)/ Adv</u>
		<u>£'000</u>	<u>£'000</u>	<u>%</u>	<u>£'000</u>
Childrens Services	181,533	180,679	(854)	(0.5)	(194)
Social Work - Adult Services	5,865	5,332	(533)	(9.1)	(258)
Development Services	28,758	28,690	(68)	(0.2)	191
Corporate & Housing Services	26,485	25,444	(1,041)	(3.9)	(1,317)
Trading Accounts	(540)	(567)	(27)	5.0	1
Provision for Budget Pressures	1,500	-	(1,500)	(100.0)	(1,500)
Sub - Total	243,601	239,578	(4,023)	(1.7)	(3,077)
Falkirk Community Trust	11,934	11,934	-	-	-
Valuation Board	1,022	1,022	-	-	-
Integration Joint Board	59,521	59,521	-	-	-
Employee Related Liabilities	-	1,457	1,457	-	1,490
Capital Financing Costs / Capital Charges	15,825	15,603	(222)	(1.4)	(228)
NET EXPENDITURE	331,903	329,115	(2,788)	(0.8)	(1,815)
Financed By :					
General Revenue Funding	206,724	206,724	-	-	-
Non-Domestic Rates	68,028	68,031	(3)	(0.0)	-
Net Council Tax	54,951	55,336	(385)	(0.7)	(210)
NET INCOME	329,703	330,091	(388)	(0.1)	(210)
SURPLUS/(DEFICIT)	(2,200)	976	(3,176)	(1.0)	(2,025)
Add : General Fund Surplus as at 1 April 2016		8,562			
Transfers (to)/from Earmarked Funds (see Appendix 3)		1,991			
General Fund Balance as at 31 March 2017		11,529			
Applied Reserves to 2017/18 Budget		(3,300)			
General Fund Balance as at 1 April 2017		8,229			
Reserves Strategy Policy - Lower Threshold		6,600			

<p style="text-align: center;">FALKIRK COUNCIL</p> <p style="text-align: center;">HOUSING REVENUE ACCOUNT</p> <p style="text-align: center;">PROJECTED REVENUE OUTTURN STATEMENT 2016/17</p>

	<u>Budget</u> £'000	<u>Projected</u> <u>Outturn</u> £'000	<u>(Fav)/ Adv</u> <u>Variance</u> £'000	%	<u>Previous</u> <u>Variance</u> £'000
Employee Expenses	5,717	5,447	(270)	(4.7)	(520)
Property Expenses	23,237	22,394	(843)	(3.6)	(650)
Transport Expenses	12	12	-	-	-
Supplies and Services	4,136	3,409	(727)	(17.6)	(725)
Third Party Payments	1,696	1,702	6	0.4	10
Support Services	5,519	5,219	(300)	(5.4)	(300)
Capital Charges	16,541	19,014	2,473	15.0	2,542
Sub-Total	56,858	57,197	339	0.6	357
Integration Joint Board	1,414	1,414	-	-	-
Compensatory Lump Sums	-	69	69	-	61
Gross Expenditure	58,272	58,680	408	0.7	418
Income	58,272	58,680	(408)	(0.7)	(418)
Surplus/(Deficit)	-	-	-		-
Add: Surplus brought forward at 1 April 2016		5,093			
Projected Surplus at 31 March 2017		5,093			

ANALYSIS OF REPAIRS & RENEWALS FUND

Service		Balance 01/04/2016 £'000	Spend £'000	Transfers £'000	Misc. £'000	Balance 31/03/2017 £'000
Development	Roads	80	-	-	-	80
	Roads - Signage	-	-	165	-	165
	Strategic Property Review	-	-	750	-	750
	Waste Strategy	118	(118)	-	-	-
	Computer Software	130	(130)	-	-	-
	Vehicle Replacement Programme	533	-	(533)	-	-
	Crematorium	200	-	(125)	1	76
	Birkhill Mine Demolition	51	(13)	-	-	38
	Pavilion Improvement	50	-	-	-	50
Social Work	Older People's Accommodation	1,159	(39)	(946)	6	180
Corp & Housing	Printworks	203	-	(156)	1	48
	Procurement	-	-	102	-	102
	General Fund Housing	904	-	(642)	5	267
	Citizens Advice Bureau	111	-	-	-	111
	Travelling Peoples Site	73	(38)	-	-	35
	Municipal Buildings Lift Repair	33	(31)	-	-	2
	Mobile & Flexible Working	339	(93)	-	1	247
Other	Mariner Centre - Lift Repairs	37	-	(37)	-	-
TOTAL		4,021	(462)	(1,422)	14	2,151

ANALYSIS OF EARMARKED RESERVES

	Balance 01/04/2016 £'000	Spend £'000	Transfers £'000	Misc. £'000	Balance 31/03/2017 £'000
Description					
Devolved Schools Management	3,890	(584)	50	-	3,356
Economic Development	1,003	(10)	(624)	-	369
Central Energy Efficiency	500	-	5	2	507
Insurance	5,180	-	-	20	5,200
Spend to Save	3,136	-	-	-	3,136
TOTAL	13,709	(594)	(569)	22	12,568

OVERAL TOTAL	17,730	(1,056)	(1,991)	36	14,719
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