

FALKIRK COUNCIL

Subject: FINANCIAL POSITION 2014/15
Meeting: EXECUTIVE
Date: 13 January 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 December 2014. The opportunity is also taken to update Members on the position with the Reserves consistent with the reporting regime agreed by the former Policy & Resources Committee in September 2012. Moreover, given the financial pressures facing the Council as previously highlighted to Members, the adequacy of the Reserves Strategy going forward has been reviewed.

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 £3.471m above the approved budget, a decrease of £0.236m from the previously reported position. As will be evident from the appendix the overspend is primarily attributable to the position with the Social Work.

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

- 2.2 Education Services (over budget by £0.883m; 0.5%)
Residential schools expenditure is still projected to be higher than last financial year primarily due to an increase in the provision of secure placements. This pressure is mirrored below in Social Work Services. A rise in primary school rolls of 3% has also contributed to an increase in teaching costs.

However, the projected overspend is £0.450m less than previously reported due to the receipt of additional income. The Council received a share of the residual funding for probationers of £0.250m from the Scottish Government. In addition the budget required to fund the nursery provision for two year olds is less than anticipated due to lower uptake levels. Scottish Government initially estimated around 80 children, but to date the Service has only received 29 expressions of interest. Public awareness campaigns will assist with increasing the uptake, however for the current financial year the budget is expected to underspend by at least £0.200m.

Social Work (over budget by £3.920m; 4.4%)

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 (£0.510m), children's residential care (£1.40m), foster care (£0.800m), adult 24 hour care (£3.0m) and adult care purchasing (£2.7m) are partially offset by savings in staff costs arising from vacancies (£2.3m), higher levels of income from adult residential care (£1.6m), contributions from Health (£0.570m) and government grants and re-imbursements (£0.380m). The higher level of income is largely a result of the increased number of people receiving care, which results in higher numbers of people paying a contribution towards their care. The number of children who are looked after away from home has increased by 11% over the last year. 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.

Demand for care services is volatile and unpredictable and pressure of demand continues to place severe pressure on budgets.

Development Services (over budget by £0.307m; 0.9%)

The projected overspend of £0.307m is largely unchanged from the previously reported position and is primarily due to the costs of the Free After Three Parking and savings from the lease buy-out at Central Business Park and car parking charges at the Municipal Buildings not being fully realised in the current financial year.

Corporate & Neighbourhood Services (under budget by £0.488m; 3.3%)

The underspend is largely as a result of reduced overtime and other staff costs in a number of areas and reduced spot hires and other transport costs in Refuse Collection.

Central Support Services (under budget by £0.470m; 2.0%)

An underspend on staffing costs across all central support services and savings in administrative buildings costs is likely to reduce the overall costs of Central Support Services to the General Fund by £0.470m.

3. TRADING ACCOUNT

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

4. HOUSING REVENUE ACCOUNT

- 4.1 Overall, the HRA (Appendix 2) is projected to be broadly in line with budget. Savings in support services, staff costs and supplies & services 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 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 order to ensure that there are sufficient funds available to meet future income and expenditure plans including funding the HRA capital investment programme.

5. GENERAL FUND RESERVES

5.1 The current Council policy on its Reserves Strategy was approved by the Policy & Resources Committee on 4 September 2012. 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. Reports to CMT help fulfil this purpose. Any sums deemed surplus, should properly be returned to the Uncommitted General Fund.

5.2 Background to the Strategy

The previous report to P&R on 4 September 2012 outlines the legislative framework for reserves which local authorities must operate within. There have been no changes to this and therefore the framework is not repeated here. However, it is important to note that Local Authorities can hold reserves for three main purposes:-

- A. a working balance to help cushion the effect of uneven cash flows and unnecessary temporary borrowing
- B. a contingency to cushion the impact of unexpected events or emergencies
- C. a means of building up funds to meet known or predicted requirements by earmarking a portion of the General Fund – although earmarked reserves are accounted for separately, legally they remain part of the General Fund.

Reserves which can be used to provide Council Services are deemed to be Usable Reserves whilst other Reserves which house accounting adjustments and timing differences are deemed Unusable Reserves and cannot be used to provide Council Services. This report deals with Usable Reserves.

5.3 Review of Strategy

As highlighted on a number of occasions during the budget setting process for 2015/16, the Council must have adequate Reserves in place to deal with unknown factors which can hit the Council without warning. Recent examples of this include:

- Changes to the contracting out arrangements for national insurance relating to defined benefit pension schemes, with an estimated cost to the Council of £4m.
- The impact of holiday pay legislation with an estimated cost of up to £0.5m per annum with a possible further significant back pay element
- An increase to teachers pension costs of 2.3%, costing c£1.4m per annum

These events highlight the importance of retaining a prudent level of reserves. Examples of activities which are or potentially could be adopted to ease pressure on the level of reserves are:-

- COSLA are currently exploring with the Scottish Government the potential to borrow to fund the holiday pay backpay and possibly the future anticipated costs of severance.
- The switching of previous Spend to Save to Prudential Borrowing [see para 5.6].

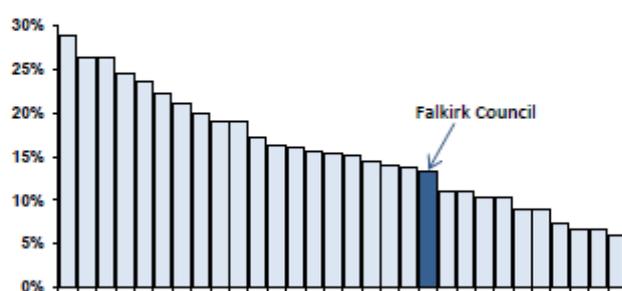
Uncommitted General Fund

As stated in paragraph 5.1, the Council has an agreed policy to retain the balance on this Reserve at a level of 2% of annual revenue expenditure (both net and gross). Based on the 2014/15 Revenue Budget this suggests a range of £6.6m to £10m. The fact that it is a range indicates that the level of Reserves actually held is a matter of judgement rather than an absolute and this judgement has to reflect the wider and future economic climate.

As shown in Appendix 1, the 2014/15 revenue budget included a transfer from reserves of £1.5m. The Council's overspend forecast increases this to £5.0m. The closing balance on the general fund reserve is therefore projected to be £7.3m (from £12.3m). It is clear that the use of the General Fund on this scale as a means of contributing to the budget is not sustainable nor is it appropriate. The current Reserves Strategy states that this Reserve should not be utilised to fund recurring annual expenditure.

The Accounts Commission in their 2013 Overview note that, "Typically, these (reserves) are in the range of one to four percent of net cost of services. A number of councils have non-earmarked general fund reserves greater than the level set out in their policies, which may be prudent in the current environment". It is useful to see how Falkirk Council's reserves compare with other councils and the following chart sourced from Audit Scotland is helpful in this respect.

Exhibit 1: Total usable reserves as a proportion of net revenue stream (%)



Source: Scottish councils' unaudited accounts 2013/14

In considering all of the above, it is considered that the current strategy of retaining an Uncommitted General Fund Balance of 2% of annual revenue expenditure is still fit for purpose.

5.4 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.

5.5 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 £0.055m has been earmarked for improvements to Earls Roads Depot and £0.100m will be utilised to purchase vehicles in 2014/15.

Waste Strategy

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. It is expected that £0.200m will be utilised in 2014/15.

Flood Prevention

The expenditure to be undertaken in 2014/15 includes flooding works at the Glensburgh pumping station and the purchase of an Aquawhale.

Birkhill Claymine Demolition

Final works to conclude the mine abandonment process will be undertaken in 2014/15.

Pavilion Improvement

Funds for commissioning works to upgrade local pavilions and other projects of community benefit will be undertaken in 2014/15.

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

Funds earmarked for planning enquiry will be spent in the current financial year.

Social Work Services Properties

Estimated spend to 31 March 2015 is £85k and this 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 now been undertaken and are currently being analysed and the remaining balance of £1.248m will be deployed to facilitate the highest priority work emerging from these surveys.

Vehicles

A sum of £0.350m has been transferred to augment funding for the vehicle replacement programme in future years and £0.030m has also been provided for 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.

Enterprise Subscription Agreement

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

Drummond House Dilapidations

A sum of £0.020m is available to pay any residual costs which might arise following the dilapidation works at Drummond House

5.6 **Earmarked Reserves**

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

Devolved Schools Management

The balance on the fund of at 31/03/14 was £5.7m. Included in the balance is a total of £3.1m which reflects timing differences between the academic and financial years mainly in respect of balances held at individual school level use by headteachers. These sums are subsequently spent during the period April to June and are replenished to around their original level by setting aside a similar level of reserves during the course of the year. To date £2.3m has been utilised, although it is anticipated that this will be replenished by £1.4m as a result of timing differences.

The remaining balance of £2.6m 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 £1.2m will require to be utilised in the current financial year.

Taking the above factors into account, it is anticipated that that balance at 31/03/15 will be £3.6m.

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 31/03/14 was £1.4m and will be used to support the following:

- Tourism Signs - £0.214m (2014/15)
- Business Support - £0.150m (2014/15)
- Property maintenance/upgrade (using dilapidation income from outgoing tenants) - £0.255m for planned expenditure at the Grangemouth Enterprise Centre, Meeks Road and Almond Court.
- Street Lighting - £0.070m (2014/15)
- Landscape Initiatives - £0.239m (2014/15)
- Falkirk Townscape Heritage Initiative - £0.200m was brought forward and it is planned to add an additional £0.100m in the current year.

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 £0.439m.

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 2014 was £4.568m. The movement on the Fund is reported at the year end once the final position is known in terms of the value of the claim made and insurance settlements received.

Spend to Save

The Council agreed to set up an earmarked reserve to fund the front end costs associated with Spend to Save proposals. It is proposed to utilise the uncommitted balance of circa £1m by allocating £0.111m to enable existing Social work staff to be trained as Mental Health Officers, reduce current expenditure by an anticipated £0.136m and using the remaining balance to help cover the cost of voluntary severance payments.

In addition, given the current projected overspend and the consequential pressure on the General Fund, it is proposed that the previously allocated sum of £1m for a new health and fitness suite at Stenhousemuir is returned to the General Fund and replaced by prudential borrowing. The borrowing costs will be met by the Council's anticipated share of the additional income generated from the facility. This has no impact on the approved project.

5.7 **General Fund Balance**

Further to consideration of the General Fund above, Appendix 1 shows a projected balance of £7.338m at 31/03/15, a marginal increase of £0.237m from the previously reported position, with the increase in Social Work's expenditure largely offset by transferring back £1.3m from Spend to Save. Overall expenditure is forecast to be £3.5m higher than budget and Chief Officers have been instructed to reduce expenditure over the remainder of the financial year with the aim of bringing expenditure more into line with the approved budget. Going forward this level of overspend will be unsustainable and expenditure will require to be managed within budget, with actions taken to address any emerging spend pressures.

5.8 **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
To be applied to 14/15 Capital Programmes	(0.476)	-	(0.476)
Projected Balance at 31 March 2015	2.342	2.237	4.579

It should be noted that the projected General Fund Balance at 31 March 2015, includes £1.4m 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.

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
To be applied to 14/15 Capital Programmes	(0.201)	-	(0.201)
Balance at 31 March 2015	3.090	1.082	4.172

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.

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

6. CONCLUSION

- 6.1 Net General Fund expenditure is £3.471m (1.0%) 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 Chief Officers have been instructed to reduce expenditure in the current financial year. Going forward into 2015/16, it will be even more imperative that Chief Officers operate within budget, with timeous action taken to address any emerging spend pressures.
- 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 The Reserves Strategy was reviewed and it was concluded that the existing framework is fit for purpose, albeit this will be kept under review.

7. RECOMMENDATIONS

Members are invited to:-

- (i) note the Council's projected year-end financial position for 2014/15;
- (ii) agree that the reserves strategy retains an uncommitted General Fund Balance of 2% of annual revenue expenditure and note the transfers to the Repairs and Renewals Fund and Earmarked Reserves as outlined at Appendix 3;

- (iii) agree that the new health and fitness suite at Stenhousemuir is financed by prudential borrowing;
- (iv) note the position on the General Fund Reserve at para 5.4, and instruct Chief Officers to take action to bring expenditure more into line with the approved budget in the current financial year.

Chief Finance Officer

Date : 16 December 2014

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 Amanda Templeman/Danny Cairney/Bryan Smail.

FALKIRK COUNCIL

GENERAL FUND

PROJECTED REVENUE OUTTURN STATEMENT 2014/15 AS AT 30/11/14

	<u>Budget</u>	<u>Projected</u>	<u>(Fav)/ Adv</u>	
	<u>£'000</u>	<u>Outturn</u>	<u>Variance</u>	
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>%</u>
Education Services	171,052	171,935	883	0.5
Social Work Services	89,764	93,684	3,920	4.4
Development Services	34,823	35,130	307	0.9
Corporate & Neighbourhood Services	14,783	14,295	(488)	(3.3)
Miscellaneous Services	12,895	12,892	(3)	(0.0)
Central Support Services	23,286	22,816	(470)	(2.0)
Less: Central Support Recharges	(23,286)	(23,286)	-	-
Trading Accounts	(949)	(881)	68	7.2
Sub - Total	322,368	326,585	4,217	1.3
Falkirk Community Trust	13,163	13,163	-	-
Valuation	1,251	1,251	-	-
Capital Financed from Current Revenue	500	500	-	-
Compensatory Lump Sums (Voluntary Severance)	268	268	-	-
Transfers to/(from) Earmarked Funds	(541)	(971)	(430)	(79.5)
Adj. for Capital Financing Costs / Capital Charges	(4,324)	(4,640)	(316)	(7.3)
NET EXPENDITURE	332,685	336,156	3,471	1.0
Financed By :				
General Revenue Funding	204,606	204,606	-	-
Non-Domestic Rates	74,307	74,307	-	-
Council Tax / Council Tax Reduction Scheme	52,272	52,272	-	-
NET INCOME	331,185	331,185	-	-
SURPLUS/(DEFICIT)	(1,500)	(4,971)	3,471	1.0
Add : General Fund Surplus as at 1 April 2014		12,309		
Projected General Fund Balance as at 31 March 2015		7,338		

Appendix 2

REVENUE POSITION STATEMENT AS AT 30/11/2014 AND PROJECTED OUTTURN 2014/15

HOUSING REVENUE ACCOUNT

PROJECTED REVENUE OUTTURN STATEMENT 2014/15 AS AT 30/11/2014

	<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> £'000
Employee Expenses	6,425	6,230	(195)	(3.0)	6,225
Property Expenses	25,765	25,680	(85)	(0.3)	25,707
Transport Expenses	32	4	(28)	(87.5)	12
Supplies and Services	4,041	3,855	(186)	(4.6)	3,769
Third Party Payments	1,964	2,015	51	2.6	2,015
Support Services	3,900	3,700	(200)	(5.1)	3,700
Capital Charges	12,307	13,316	1,009	8.2	13,411
Compensatory Lump Sums	-	-	-	-	-
Gross Expenditure	<u>54,434</u>	<u>54,800</u>	<u>366</u>	<u>0.7</u>	<u>54,839</u>
Income	54,434	54,800	(366)	(0.7)	54,839
Surplus/(Deficit)	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
Add: Surplus brought forward at 1 April 2014		5,093			
Projected Surplus at 31 March 2015		<u>5,093</u>			

ANALYSIS OF REPAIRS & RENEWALS FUND

Service	Description	Balance 01/04/14 £'000	Projected Spend £'000	Transfers £'000	Balance 31/03/15 £'000
Chief Executive	Printworks	206	-	-	206
Development	Roads	155	(155)	-	-
	Waste Strategy	619	(200)	-	419
	Flood Prevention	416	(416)	-	-
	Birkhill Mine Demolition	35	(35)	-	-
	Pavilion Improvement	50	(50)	-	-
	Public Realm Bo'ness/Muirhouses	45	(45)	-	-
	Planning Enquiry	92	(92)	-	-
Social Work	Older People's Accommodation	1,333	(85)	-	1,248
Corp & N'Hood	Vehicle Tracking Systems	30	(30)	-	-
	Vehicle Replacement Programme	350	-	-	350
	General Fund Housing	897	-	-	897
	Enterprise Subscription Agreement	123	(123)	-	-
Other	Drummond House Dilapidations	20	-	-	20
TOTAL		4,371	(1,231)	-	3,140

ANALYSIS OF EARMARKED RESERVES

Description	Balance 01/04/14 £'000	Projected Spend £'000	Transfers £'000	Balance 31/03/15 £'000
Devolved Schools Management	5,656	(3,500)	1,400	3,556
Economic Development	1,407	(673)	100	834
Central Energy Efficiency	439	-	-	439
Insurance	4,568	-	-	4,568
Spend to Save	3,597	(1,314)	(430)	1,853
TOTAL	15,667	(5,487)	1,070	11,250