

FALKIRK COUNCIL

Subject: FINANCIAL POSITION 2015/16
Meeting: EXECUTIVE
Date: 18 August 2015
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report presents the initial update on the financial position of the Council for 2015/16 and reflects the situation as at 31 July 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, will be reflected in future financial statements. The statements however do reflect the changes in Social Work, with the children's element moving to the new Children's Services.

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 in aggregate is currently forecast to be broadly in line with the approved budget. As will be evident from the appendix, the main spending pressures are primarily attributable to both Children's and Adult Social Work. Members will recall that these strong spending pressures emerged last financial year and resulted in special reports to Members. However this has been largely offset by the £2m provided in the budget for spending pressures together with projected underspends within other Services. Members should be aware that pay negotiations are currently underway and the outcome may have an impact on the financial projections.

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

- 2.2 Children's Services – Education (over budget by £0.340m; 0.2%)

At this early stage in the financial year the educational element of the Service is projecting slightly above budget, with higher property and operational costs being offset by higher income and savings in employee costs. 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.

Children's Services – Social Work (over budget by £1.800m, 8.4%)

There are still significant challenges in keeping the costs of children's residential care within budget. Current projections suggest an overspend of £1.8m. Although this is less than the previous year, the overall position remains highly volatile.

The Children's Services Senior Management Team have met with colleagues from Corporate Finance and discussed alternative approaches to the allocation of funds to provide support packages for vulnerable children. Work has commenced to explore how in future less use is made of external provision by developing better local care and educational provisions that meet children's needs and are more affordable. Managers are currently identifying children for whom local arrangement can be made to allow them to return from expensive external provision.

Social Work Adult Services (over budget by £0.800m; 1.1%)

As Members are aware there are significant demand pressures on service provision, in particular Adult 24 hour care and Adult Care purchasing. As noted, these pressures facing Social Work, including the element now within Children's Services, have been set out in previous reports to Members, most recently the budget report in February. The latter report also outlined a number of actions aimed at reducing the overspend, with the most significant being procurement savings of £1m and a further £1m from a series of measures aimed at capping home care places, reviewing eligibility criteria and increasing the capped charge for young adult services. However, there has been limited progress to date with implementing these initiatives.

Development Services (over budget by £0.365m; 1.1%)

The forecast is marginally above budget and is primarily due to lower income from commercial rents due to voids and car parking charges, particularly at the Municipal Buildings. These variations, as in previous years, may possibly be offset by lower operational expenditure, although budget savings targets will impact on the Service's capacity to manage these pressures.

Corporate & Neighbourhood Services (under budget by £0.245m; 1.9%)

The underspend is largely as a result of reduced overtime and other staff costs in a number of areas of the Service.

Central Support Services (under budget by £0.711m; 3.0%)

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 £0.711m.

Compensatory Lump Sums (£0.900m)

The cost of compensatory lump sums paid as a result of employees leaving through voluntary severance stands at £0.900m. Savings will accrue in future years.

Council Tax (over budget by £1.144m; 2.2%)

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 c120 FTE in 2015/16 and c310 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
Temporary Contracts Ended	40	
Seeking Redeployment	41	
Severance	71	22

4. TRADING ACCOUNT

4.1 The projected overall surplus of Building Maintenance is in line with budget.

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. The HRA reserve will be maintained over the longer term in order to ensure that there are sufficient funds available to meet future expenditure plans including funding the HRA capital investment programme.

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)

The majority of the remaining balance will be used to fund improvements to Earls Road Depot.

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 funding is required to provide for various flood prevention initiatives.

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 now been undertaken and are currently being analysed and the balance of £1.335m will be deployed to facilitate the highest priority work.

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)

As highlighted in previous reports to the Executive it is proposed to use the reserve in two 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 (£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.

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 of 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. 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 £1.3m has been utilised. although it is anticipated that this will be replenished by £0.6m as a result of timing differences.

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/upgrade - £0.284m
- Business Support/Landscape Initiatives - £0.219m
- Falkirk Townscape Heritage Initiative - £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. Work is currently underway to obtain a valuation for 2015, the results of which 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 £8.264m at 31/03/16, with the increase 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	(0.030)	-	(0.030)
Projected Balance at 31 March 2016	3.324	2.424	5.748

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 in line with 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: 29 July 2015

Ref: AAP180815 – Financial Position 2015/15

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 Amanda Templeman/Danny Cairney/Bryan Smail.

FALKIRK COUNCIL

GENERAL FUND

PROJECTED REVENUE OUTTURN STATEMENT 2015/16 AS AT 31/07/15

	Budget	Projected	(Fav)/ Adv	
	£'000	Outturn	Variance	
	£'000	£'000	£'000	%
Childrens Services - Education	174,059	174,399	340	0.2
Childrens Services - Social Work	21,482	23,282	1,800	8.4
Social Work - Adult Services	70,633	71,433	800	1.1
Development Services	33,856	34,221	365	1.1
Corporate & Neighbourhood Services	13,042	12,797	(245)	(1.9)
Miscellaneous Services	12,530	12,530	-	-
Central Support Services	23,574	22,863	(711)	(3.0)
Less: Central Support Recharges	(23,574)	(23,574)	-	-
Trading Accounts	(752)	(752)	-	-
Provision for Budget Pressures	2,000	-	(2,000)	100.0
Sub - Total	326,850	327,199	349	0.1
Falkirk Community Trust	12,660	12,660	-	-
Valuation	1,119	1,119	-	-
Compensatory Lump Sums	-	900	900	-
Transfers to/(from) Earmarked Funds	(400)	(400)	-	-
Adj. for Capital Financing Costs / Capital Charges	(4,472)	(4,472)	-	-
NET EXPENDITURE	335,757	337,006	1,249	0.4
Financed By :				
General Revenue Funding	220,715	220,715	-	-
Non-Domestic Rates	62,336	62,336	-	-
Council Tax / Council Tax Reduction Scheme	52,706	53,850	1,144	2.2
NET INCOME	335,757	336,901	1,144	0.3
SURPLUS/(DEFICIT)	-	(105)	105	0.0
Add : General Fund Surplus as at 1 April 2015		8,369		
Projected General Fund Balance as at 31 March 2016		8,264		

Appendix 2

FALKIRK COUNCIL	
HOUSING REVENUE ACCOUNT	
PROJECTED REVENUE OUTTURN STATEMENT 2015/16 AS AT 31/07/2015	

	Budget £'000	Projected Outturn £'000	(Fav)/ Adv Variance £'000	%
Employee Expenses	6,848	6,598	(250)	(3.7)
Property Expenses	25,979	25,979	-	-
Transport Expenses	8	8	-	-
Supplies and Services	4,348	3,847	(501)	(11.5)
Third Party Payments	1,796	1,664	(132)	(7.3)
Support Services	4,007	3,907	(100)	(2.5)
Capital Charges	13,498	14,603	1,105	8.2
Gross Expenditure	<u>56,484</u>	<u>56,606</u>	<u>122</u>	<u>0.2</u>
Income	56,484	56,606	(122)	(0.2)
Surplus/(Deficit)	<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	-	-	32
Social Work	Older People's Accommodation	1,335	-	-	1,335
Corp & N'Hood	Vehicle Replacement Programme	879	(350)	-	529
	General Fund Housing	897	-	-	897
	Mobile & Flexible Working	167	-	-	167
Other	Drummond House Dilapidations	20	(20)	-	-
	Mariner Centre	37	(37)	-	-
TOTAL		4,744	(407)	-	4,337

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	(310)	-	2,304
TOTAL	13,877	(3,810)	600	10,667