

Falkirk Council

Title: Projected Financial Position 2016/17
Meeting: Executive
Date: 16 August 2016
Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 This report presents the initial update on the financial position of the Council for 2016/17 and reflects the situation as at 30 June 2016. It also provides an update on the position with Reserves in line with the policy approved by the Executive in January 2015.

2. Recommendations

2.1 The Executive is invited to:

- (i) **Note the Council's projected year-end financial position for 2016/17**
- (ii) **Note the position with respect to Reserves**

3. Background

- 3.1 Following from the Council's approved 2016/17 budget in February, this report details progress with meeting the budgeted financial targets and objectives.

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 year end is forecast to be £329.1m which is £0.756m (0.2%) below the resources available. The main spending pressures are primarily attributable to the cost of voluntary severance payments and spending pressures within Children's Services. However this has been largely offset by the £1.5m provided in the budget for spending pressures and projected underspends within other Services. In addition £0.807m has been transferred back from earmarked funds, with £0.614m offsetting the overspend within Children's Services.

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

Children's Services – (over budget by £0.614m; 0.3%)

(i) Education (under budget by £0.162m)

At this early point in the financial year the Education Division of the Service is projecting slightly below budget, with higher property costs of £0.200m offset by lower expenditure on residential schools of £0.335m. 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 and the prescribed pupil:teacher ratio in line with the agreement made with the Scottish Government.

In addition, it is anticipated that the expected growth and expansion in the early years provision arising from increased demand for places can be managed from existing resources.

(ii) Social Work – Children & Families (over budget by £0.776m)

In comparison with previous financial years, the overspend is circa £0.140m lower than in 2015/16 and c£1.9m lower than in 2014/15. As previously noted the number of children in residential schools and residential care has fallen with costs no longer being incurred for a number of children, who were placed in expensive residential accommodation. A reduction in the rates paid with a number of providers has also helped the overall position. Overall fostering and residential placements remains a highly volatile area and there is the potential for additional costs being incurred as a result of kinship care and obligations for Continuing Care and After Care under the Children and Young People Act.

Social Work Adult Services (under budget by £0.364m; 3.7%)

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 on area of direct social work provision, the mental health officer service. The underspend is principally due to lower expenditure on property costs.

Development Services (over budget by £0.180m; 0.5%)

The Service is projecting slightly over budget with lower income due from commercial rents of £0.170m and car parking charges of £0.140m. In addition there are higher waste collection costs of £0.340m due to the increased costs of processing and recycling materials collected via the blue bins. These pressures are offset by lower employee costs of £0.260m and transport costs of £0.210m.

Corporate & Housing Services (under budget by £0.636m; 4.8%)

(i) General Fund Housing (under budget by £0.116m)

The projection reflects the cost of not implementing the savings proposal relating to Garden Aid, with the general fund in-scope amount of £0.275m passed across to the Integration Joint Board. As agreed by Council in June, these costs are expected to be covered by an increase in council tax income. There are lower than anticipated staff costs within General Fund Housing. The elements of the Service relating to central support are presented in the next section.

(ii) Central Support Services (under budget by £0.440m)

An underspend on staffing costs across all central support services has reduced the overall costs of Central Support Services to the General Fund by £0.440m.

(iii) Miscellaneous Services (under budget by £0.080m)

There are various underspends across several areas of Miscellaneous Services which are partly offset by the deficit within Printworks.

Integration Joint Board

Members will be aware that 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. A net sum of £61.926m (£59.185m from the General Fund) has been provided from the Council. It is for the IJB to manage its expenditure within the resources provided, although Members should be aware that for the Council Services passed over to the IJB, an overspend of £1.946m is currently projected. This primarily reflects significant demand pressures on service provision, in particular Adult 24 hour care and Adult Home Care purchasing.

Compensatory Lump Sums (£1.160m)

The projected cost of compensatory lump sums paid as a result of employees leaving through voluntary severance stands at £1.160m. This projection is based on estimating the number of severance requests likely to be approved over the financial year. Currently the projected costs can be managed within the Council's overall budget for 2016/17. However, there is scope for these costs to be offset by the applying the Spend to Save Reserve and, in part, capital receipts. This will be monitored during the course of the financial year. Savings from staff leaving will accrue in future years.

Council Tax (over budget by £0.210m; 0.4%)

The increase in the council tax yield follows on from the previous financial years. A combination of factors, such as new properties, the reduced cost of the council tax reduction scheme and an ongoing improvement in the collection rate has improved the yield. As noted previously, the additional income will help cover the decision on Garden Aid.

4.2. Workforce Changes

4.2.1 Members will be aware of the requirement for Services to reduce staff numbers by c231 Full Time Equivalent (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.

4.2.2 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 | 50 |
| Severance | 163 | 100 |

Overall, from June 2015 to June 2016, headcount and FTE have reduced as follows:

| | June 2015 | June 2016 |
|-----------|----------------------|----------------------|
| | | |
| Headcount | 7,239 | 7,004 |
| FTE | 6,095 | 5,808 |

4.3 Trading Account

4.3.1 The projected overall surplus of Building Maintenance is marginally less than budgeted.

4.4. Housing Revenue Account (HRA)

4.4.1 Overall, HRA spending of £58.9m (Appendix 2) is in line with budget. There are savings in staff costs and operational expenditure, 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 provision of additional Capital Financed from Current Revenue [CFCR] to augment the resources available to undertake housing investment. As with the General Fund, projection for the HRA incorporates a payment of £0.214m to the IJB for Garden Aid.

- 4.4.2 The reserve balance brought forward at 1 April 2016 was £5.093m and no application from reserves is planned for 2016/17, 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.

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 The approved reserves strategy suggests a range of £6.6m - £10m for the General Fund. Appendix 1 shows a projected balance of £7.925m at March 2017, which incorporates a transfer of £0.810m from Earmarked Reserves and an additional provision for equal pay.
- 4.5.3 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.

4.5.4 Repairs and Renewals Fund

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

Printworks (£0.203m)

It was planned to use this fund to replace the current 4 colour press in 2018/19. This position has been reassessed and having regard to the downward trend in printworks income, £0.156m is to be returned to the General Fund with a small balance retained for other equipment needs.

Roads (£0.080m)

It is intended that the balance will be used in 2016/17 to fund improvements to the Earls Road Depot, including upgrading the CCTV.

Waste Strategy (£0.118m)

The balance of £0.118m will be fully utilised to support the purchase of recycling bins, undertake recycling centre maintenance and to upgrade and assist with expanding the recycling provision.

Computer Software – Building Design & Engineering Design Units (£0.130m)

It is intended to use the funding available as a contribution towards the cost of upgrading the current computer aided design software used by Building Design and Engineering Design units as the version currently installed is incompatible with the Council's new system to enable mobile and flexible working.

Crematorium (£0.200m)

The funding will supplement the approved refurbishment works being undertaken at the crematorium. It is anticipated that this will be utilised in 2016/17.

Social Work Services Properties (£1.159m)

As part of the capital programme, Members approved the rescheduling of a number of projects to future years, including £3.4m of planned expenditure on Older People's Accommodation. Funding of £0.5m from Repairs and Renewals has already been earmarked to support this capital expenditure, with the balance of £0.659m being utilised to enable the refurbishment of premises following condition surveys.

Vehicle Replacement (£0.533m)

A sum of £0.533m has been transferred to augment funding for the vehicle replacement programme with £0.200m due to be spent in the current financial year. The balance of £0.333m will be spent in 2017/18. This application of reserves is necessary to help fund the replacement of refuse collection vehicles.

General Fund Housing (£0.904m)

It is proposed to use the fund to deliver efficiencies and savings in the current and future financial years. Work to upgrade the Council's hostel accommodation has commenced in order to help reduce future accommodation and support costs. It is anticipated that 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 £0.111m to facilitate this move has been incorporated within the fund and will be deployed in 2016/17.

Mobile & Flexible Working (£0.339m)

In December 2014 a report was presented to the Executive detailing a project on Mobile and Flexible working. The funding is due to be spent in 2016/17.

Miscellaneous Repairs & Maintenance (£0.106m)

Funding of £0.106m has been added to offset the cost of repairs within the Travelling Peoples Site and to the lift within the Municipal Buildings and will be spent in 16/17.

4.5.5 **Earmarked Reserves**

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

Devolved Schools Management (£3.890m)

The balance on the fund at 1 April 2016 is £3.890m. Included in the total is a sum of £1.895m, which is mainly in respect of balances held at individual school level for use by headteachers. The remaining balance of £1.995m is principally and prudently earmarked to help manage the expected growth and expansion in early years provision arising from increased demand for places from qualifying 2 year olds and for the potential increased cost of maintaining teaching numbers in light of increased roll numbers.

A sum has also been earmarked to act as a contingency if issues arise which affect the full achievement of the planned budget savings in 2016/17. Given the Service is projecting an overspend of £0.614m, funding will be transferred back to the General Fund to match this overspend.

Economic Development (£1.003m)

The fund assists with the delivery of economic projects where the Council has a significant property related interest. The balance on the fund at 31/03/16 was £1.003m, with £0.500m earmarked to support the Falkirk Townscape Initiative, £0.284m for property maintenance/dilapidations works at Meeks Road, Almond Court and Victoria Mills (Bo'ness) and £0.219m for business Support/Landscape Initiatives including delivery of tourism signage works.

Energy Efficiency Loan Fund (£0.500m)

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 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 30 non-domestic buildings, including schools, leisure centres and care homes.

Insurance Fund (£5.180m)

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. Consequently, a release of monies from the Fund to the Revenue Budget is not recommended at this point in time.

Spend to Save (£3.136m)

A significant part of this balance is to help to cover the cost of voluntary severance, with funding available of c£2.5m. To the extent these can currently be covered by the Council's mainstream resources as noted at section 4.1, there is capacity to accommodate initiatives expected to emerge from the range of Strategic and Improvement Reviews currently underway. The remaining balance of c£0.6m is to fund the front end costs associated with Spend to Save proposals, including the Rehab Group proposals for the factory unit at Central Business Park and enabling Social Work staff to be trained as Mental Health Officers.

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 is projecting £0.756m 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 £0.756m (0.2%) below the resources available. The projected General Fund balance for 2016/17 is £7.925m.
- 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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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 30/06/16

| | <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>%</u> |
| Childrens Services | 185,173 | 185,787 | 614 | 0.3 |
| Social Work - Adult Services | 9,734 | 9,370 | (364) | (3.7) |
| Development Services | 32,915 | 33,095 | 180 | 0.5 |
| Corporate & Housing Services | 13,116 | 12,480 | (636) | (4.8) |
| Trading Accounts | (496) | (496) | - | - |
| Provision for Budget Pressures | 1,500 | - | (1,500) | (100.0) |
| Sub - Total | 241,942 | 240,236 | (1,706) | (0.7) |
| Falkirk Community Trust | 11,966 | 11,966 | - | - |
| Valuation Board | 1,022 | 1,022 | - | - |
| Integrated Joint Board | 59,185 | 59,185 | - | - |
| Compensatory Lump Sums | - | 1,160 | 1,160 | - |
| Adj. for Capital Financing Costs / Capital Charges | 15,517 | 15,517 | - | - |
| NET EXPENDITURE | 329,632 | 329,086 | (546) | (0.2) |
| <u>Financed By :</u> | | | | |
| General Revenue Funding | 204,511 | 204,511 | - | - |
| Non-Domestic Rates | 68,028 | 68,028 | - | - |
| Council Tax / Council Tax Reduction Scheme | 54,893 | 55,103 | (210) | (0.4) |
| NET INCOME | 327,432 | 327,642 | (210) | (0.1) |
| SURPLUS/(DEFICIT) | (2,200) | (1,444) | (756) | (0.2) |
| Add : General Fund Surplus as at 1 April 2016 | | 8,562 | | |
| Transfers (to)/from Earmarked Funds | | 807 | | |
| Projected General Fund Balance as at 31 March 2017 | | 7,925 | | |
| Reserves Strategy Policy - Lower Threshold | | 6,600 | | |

FALKIRK COUNCIL
HOUSING REVENUE ACCOUNT

PROJECTED REVENUE OUTTURN STATEMENT 2016/17 AS AT 30/06/2016

| | <u>Budget</u> £'000 | <u>Projected</u> <u>Outturn</u> £'000 | <u>(Fav)/ Adv</u> <u>Variance</u> £'000 | % |
|--|--------------------------------------|--|--|------------|
| Employee Expenses | 6,957 | 6,401 | (556) | (8.0) |
| Property Expenses | 25,154 | 24,971 | (183) | (0.7) |
| Transport Expenses | 8 | 8 | - | - |
| Supplies and Services | 4,372 | 3,901 | (471) | (10.8) |
| Third Party Payments | 1,215 | 1,235 | 20 | 1.6 |
| Support Services | 4,380 | 4,080 | (300) | (6.8) |
| Capital Charges | 16,541 | 18,265 | 1,724 | 10.4 |
| Compensatory Lump Sums | - | - | - | - |
| Gross Expenditure | <u>58,627</u> | <u>58,861</u> | <u>234</u> | <u>0.4</u> |
| Income | 58,627 | 58,861 | (234) | (0.4) |
| Surplus/(Deficit) | <u>-</u> | <u>-</u> | <u>-</u> | |
| Add: Surplus brought forward at 1 April 2016 | | 5,093 | | |
| Projected Surplus at 31 March 2017 | | <u>5,093</u> | | |

ANALYSIS OF REPAIRS & RENEWALS FUND

| Service | | Balance 01/04/2016 £'000 | Spend £'000 | Transfers £'000 | Projected Balance 31/03/2017 £'000 |
|-----------------|---------------------------------|---|------------------------|----------------------------|---|
| Chief Executive | Printworks | 203 | - | (156) | 47 |
| Development | Roads | 80 | (80) | - | - |
| | Waste Strategy | 118 | (118) | - | - |
| | Computer Software | 130 | (130) | - | - |
| | Crematorium | 200 | (200) | - | - |
| | Birkhill Mine Demolition | 51 | (51) | - | - |
| | Pavilion Improvement | 50 | (50) | - | - |
| Social Work | Older People's Accommodation | 1,159 | - | - | 1,159 |
| Corp & Housing | Vehicle Replacement Programm | 533 | (200) | - | 333 |
| | General Fund Housing | 904 | (450) | - | 454 |
| | Citizens Advice Bureau | 111 | (111) | - | - |
| | Travelling Peoples Site | 73 | (73) | - | - |
| | Municipal Buildings Lift Repair | 33 | (33) | - | - |
| | Mobile & Flexible Working | 339 | (339) | - | - |
| Other | Mariner Centre - Lift Repairs | 37 | - | (37) | - |
| TOTAL | | 4,021 | (1,835) | (193) | 1,993 |

ANALYSIS OF EARMARKED RESERVES

| Description | Balance 01/04/2016 £'000 | Spend £'000 | Transfers £'000 | Projected Balance 31/03/2017 £'000 |
|-----------------------------|---|------------------------|----------------------------|---|
| Devolved Schools Management | 3,890 | (800) | (614) | 2,476 |
| Economic Development | 1,003 | - | - | 1,003 |
| Central Energy Efficiency | 500 | - | - | 500 |
| Insurance | 5,180 | - | - | 5,180 |
| Spend to Save | 3,136 | (218) | - | 2,918 |
| | | | | |
| TOTAL | 13,709 | (1,018) | (614) | 12,077 |