

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest includes a crown at the top with four maple leaves, a shield divided into four quadrants (top-left: a sailing ship, top-right: a beaver, bottom-left: a ship, bottom-right: a beaver), and a banner at the bottom with the motto 'CITY OF VANCOUVER'.

AGENDA ITEM

9

Projected Financial Position 2016/17

Falkirk Council

Title: Projected Financial Position 2016/17
Meeting: Executive
Date: 18 October 2016
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 and reflects the situation as at 31 August 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:

- 1) note the Council's projected year-end financial position for 2016/17; and**
- 2) note the position with respect to Reserves.**

3. Background

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

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 £328.8m which is £1.913m (0.6%) below the resources available. This is a movement of £1.157m (0.4%) from the position at June and is mainly due to favourable movements in Children's Services, Central Support and Development Services as detailed in 4.1.3. The main spending pressures are attributable to the cost of voluntary severance payments. However this has been offset by the £1.5m provided in the budget for spending pressures that have not yet materialised, principally within Children's and Adult Social Work Services, along with projected underspends within other Services. In preparing the 2017/18 Budget, consideration will be given as to whether this provision, and at this level, need be repeated. Moreover, underspends will be reviewed as candidates for budget rebasing.

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

Children's Services – (under budget by £0.043m; 0.0%)

(i) Education (under budget by £0.707m)

The full financial effect of the new school year, particularly, in terms of teacher numbers, will not be determined until the next report to Members, however at this stage of the year the Education Division is now projecting £0.707m below budget as a result of lower employee costs. This projection assumes that the Service continues to demonstrate that it can meet 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 and that there is no significant growth in demand for early years places. In terms of variations, higher property costs of £0.287m are offset by lower expenditure of £0.295m on residential schools, as a result of a reduced number of children in these schools, and lower employee costs of £0.918m due to vacant posts.

(ii) Social Work – Children & Families (over budget by £0.664m)

The projected overspend is primarily due to the costs of looked after children and the demand for these services still remains volatile and unpredictable. However, the overspend is lower than previous years (2014/15 – reported overspend of £2.8m) as the number of children in residential schools 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 £0.286m; 2.9%)

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.

Development Services (over budget by £0.045m; 0.1%)

The Service is projecting a minor overspend with lower income from car parks of £0.100m and from commercial rents of £0.038m. In addition, there are higher third party payment costs associated with the waste process of £0.237m due to increased costs of processing and recycling waste material collected. These pressures are offset by lower employee costs of £0.302m and bus contract costs of £0.018m.

Corporate & Housing Services (under budget by £0.852m; 6.2%)

(i) General Fund Housing (under budget by £0.106m)

The projection reflects 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. 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.

(ii) Central Support Services (under budget by £0.713m)

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 £0.713m.

(iii) Miscellaneous Services (under budget by £0.033m)

The projected position is broadly in line with Budget. There are various underspends across several areas of Miscellaneous Services which are partly offset by reduced interest receipts due to lower bank rate and 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. To date, a net sum of £61.092m (£59.351m from the General Fund) has been passed to the IJB for delegation back to 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, the projected overspend has reduced to £0.932m after IJB allocated £1m to cover this. A further £0.896m of the Integration Fund has also been set aside for the Council should projected overspends materialise. The overspend primarily reflects significant demand pressures on service provision, in particular Adult Residential 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 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 materialise 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 year's outturn. 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 Trading Account

- 4.2.1 The projected overall surplus of Building Maintenance is £0.511m, marginally less than budgeted.

4.3 Workforce Changes

- 4.3.1 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.
- 4.3.2 To date, progress with employees seeking redeployment and leaving through voluntary severance is as follows:-

	No of Posts		
	2015/16	2016/17	2017/18
Seeking Redeployment	95	42	
Severance	163	106	1

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

	August 2015	August 2016
Headcount	7,244	7,056
FTE	6,107	5,848

4.4. Capital Financing Costs

- 4.4.1 An underspend of £0.228m 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%.

4.5 Housing Revenue Account (HRA)

- 4.5.1 Overall, HRA spending of £58.7m (Appendix 2) is over budget by £418k which is offset by increased income. 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. The projection for the HRA incorporates a payment of £1.414m to the IJB for in scope services.
- 4.5.2 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.

4.6 General Fund Reserves

- 4.6.1 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 (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.
- 4.6.2 Appendix 1 shows a projected balance of £8.968m at March 2017, which incorporates a transfer of £0.693m from Earmarked Reserves. The position on equal pay settlements remains uncertain and this could have a negative impact on reserves.
- 4.6.3 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.

4.6.4 **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 has been returned to the General Fund as a contribution to the 2017/18 savings targets, 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.

Vehicle Replacement (£0.533m)

A sum of £0.533m has been earmarked 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.

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 at the meeting of Executive on 27 September, 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.

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.

Miscellaneous Repairs & Maintenance (£0.106m)

Funding of £0.106m has been included 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.

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.

4.6.5 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 was £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. Members should note that the Scrutiny Committee in September considered a detailed report on Devolved School Management, which included the operation of the reserve.

As indicated in the August report, a sum of £0.614m was earmarked to be transferred to the General Fund to cover the reported Service overspend at that time. In light of the latest projection, this adjustment is no longer required, however, a sum of £0.500m has been earmarked to be transferred to the General Fund as a contribution to the 2017/18 savings targets. This will be subject to ongoing review.

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.

Central 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 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 (£5.180m)

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 General Fund 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 £1.913m 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 £328.8m which is £1.913m (0.6%) below the resources available. The projected General Fund balance for 2016/17 is £8.968m.
- 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

**Author –Margaret Smith, Acting Accountancy Services Manager – 01324
506366, Margaret.smith@falkirk.gov.uk**

Date: 10 October 2016

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 31/08/2016

	Budget	Projected	(Fav)/ Adv		Previous
	£'000	Outturn	Variance		Projection
		£'000	£'000	%	£'000
Childrens Services	185,182	185,139	(43)	(0.0)	185,796
Social Work - Adult Services	9,827	9,541	(286)	(2.9)	9,463
Development Services	32,915	32,960	45	0.1	33,095
Corporate & Housing Services	13,739	12,887	(852)	(6.2)	13,103
Trading Accounts	(512)	(511)	1	(0.2)	(512)
Provision for Budget Pressures	1,500	-	(1,500)	(100.0)	-
Sub - Total	242,651	240,016	(2,635)	(1.1)	240,945
Falkirk Community Trust	11,966	11,966	-	-	11,966
Valuation Board	1,022	1,022	-	-	1,022
Integration Joint Board	59,351	59,351	-	-	59,351
Compensatory Lump Sums	-	1,160	1,160	-	1,160
Adj. for Capital Financing Costs / Capital Charges	15,517	15,289	(228)	(1.5)	15,517
NET EXPENDITURE	330,507	328,804	(1,703)	(0.5)	329,961
Financed By :					
General Revenue Funding	205,386	205,386	-	-	205,386
Non-Domestic Rates	68,028	68,028	-	-	68,028
Council Tax / Council Tax Reduction Scheme	54,893	55,103	(210)	(0.4)	55,103
NET INCOME	328,307	328,517	(210)	(0.1)	328,517
SURPLUS/(DEFICIT)	(2,200)	(287)	(1,913)	(0.6)	(1,444)
Add : General Fund Surplus as at 1 April 2016		8,562			
Transfers (to)/from Earmarked Funds		693			
Projected General Fund Balance as at 31 March 2017		8,968			
Reserves Strategy Policy - Lower Threshold		6,600			

FALKIRK COUNCIL

HOUSING REVENUE ACCOUNT

PROJECTED REVENUE OUTTURN STATEMENT 2016/17 AS AT 31/08/2016

	<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	6,856	6,336	(520)	(7.6)	6,239
Property Expenses	23,237	22,587	(650)	(2.8)	23,054
Transport Expenses	12	12	-	-	12
Supplies and Services	4,136	3,411	(725)	(17.5)	3,665
Third Party Payments	1,696	1,706	10	0.6	1,716
Support Services	4,380	4,080	(300)	(6.8)	4,080
Capital Charges	16,541	19,083	2,542	15.4	18,265
Sub-Total	56,858	57,215	357	0.6	57,031
Integration Joint Board	1,414	1,414	-	-	1,414
Compensatory Lump Sums	-	61	61	-	61
Gross Expenditure	58,272	58,690	418	0.7	58,506
Income	58,272	58,690	(418)	(0.7)	58,506
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	Projected Balance 31/03/2017 £'000
Chief Executive	Printworks	203	-	(156)	47
Development	Roads	80	(80)	-	-
	Waste Strategy	118	(118)	-	-
	Computer Software	130	(130)	-	-
	Vehicle Replacement Programme	533	(200)	-	333
	Crematorium	200	(200)	-	-
	Birkhill Mine Demolition	51	(51)	-	-
	Pavilion Improvement	50	(50)	-	-
Social Work	Older People's Accommodation	1,159	-	-	1,159
Corp & Housing	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)	(500)	2,590
Economic Development	1,003	-	-	1,003
Central Energy Efficiency	500	(15)	-	485
Insurance	5,180	-	-	5,180
Spend to Save	3,136	(218)	-	2,918
TOTAL	13,709	(1,033)	(500)	12,176

OVERAL TOTAL	17,730	(2,868)	(693)	14,169
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