

The background of the slide features a large, light blue watermark of the Coat of Arms of the Government of Nunavut. The crest is shield-shaped and divided into four quadrants. The top-left quadrant shows a stylized building, the top-right shows a caribou head with antlers, the bottom-left shows a sailing ship on wavy lines representing water, and the bottom-right shows a bird with spread wings. Above the shield is a crown with four maple leaves. A banner at the bottom contains the motto 'ANE FOR A'.

Agenda Item 10

Projected Financial Position 2016/17

Falkirk Council

Title: Projected Financial Position 2016/17
Meeting: Executive
Date: 10 January 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. 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 the Council's approved 2016/17 budget in February, and the update reports to Executive in August and October, this report details progress with meeting the budgeted financial targets. The projections are based on the latest information provided by Services but these may change depending on the spend in the months remaining.

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 £2.025m (0.6%) below the resources available. This is a movement of £0.112m (0.03%) from the position at August and is mainly due to favourable movements in Children's Services and Corporate & Housing 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, 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, is required. 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 £0.194m; 0.1%)

(i) Education (under budget by £0.959m)

At this stage of the year, the Education Division is projecting £0.959m below budget. This projection assumes that the Service continues to demonstrate that it can meet the required savings targets and that there is no significant increase in demand for individual support packages for those children who have additional support needs. 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 of £0.171m are offset by a reduction in residential schools expenditure of £0.505m, as a result of a reduced number of children in these schools, and lower employee costs of £0.894m due to vacant posts.

(ii) Social Work – Children & Families (over budget by £0.765m)

This position is lower than previous years (2014/15 – reported overspend of £2.8m) as the number of children in expensive residential schools and residential accommodation has reduced.

The projected 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 our private care providers which has improved the overall position. Whilst the Service remains committed to making efficiencies in both fostering and residential placement provision both remain a highly challenging and financially volatile area. There also remains the potential risk of additional costs being incurred as a result of the obligations under the Children and Young People Act in relation to kinship care and continuing and after care provision.

Social Work Adult Services (under budget by £0.258m; 2.7%)

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 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 £0.191m; 0.6%)

The projected overspend is primarily due to higher third party payment costs within Operational Services associated with the processing and disposing of waste. This is an area which is undergoing significant change in how it delivers its service. In addition, there is an under-recovery of income, particularly within Council Car Parks and Commercial & Industrial rental properties. These pressures are offset by lower employee costs and lower spend within supplies & services.

Corporate & Housing Services (under budget by £1.317m; 9.7%)

(i) General Fund Housing (under budget by £0.227m)

There are lower than anticipated staff costs of £456k within Welfare Advice, Homeless and Private Sector Housing. This underspend is 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 £0.925m)

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 £0.925m.

(iii) Miscellaneous Services (under budget by £0.165m)

There are various underspends across several areas of Miscellaneous Services which are partly offset by reduced interest receipts due to the lower bank rate, increased Housing Benefit costs 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 £61.252m (£59.512m 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 £0.789m. This is a result of improved efficiency from Home Care Services and reduction in residential care cost benefiting from ongoing work in negotiating and harmonising rate for external providers. A further £0.896m of the Integration Fund has also been set aside for Council related activities 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 (£1.490m)

The projected cost of compensatory lump sums paid as a result of employees leaving through voluntary severance stands at £1.490m. 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. This will be monitored during the course of the financial year. Savings from staff leaving will materialise in future years.

Capital Financing Costs

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%.

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.

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; 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	2017/18
Seeking Redeployment	95	44	
Severance	163	115	1

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

	October 2015	October 2016
Headcount	7,203	7,091
FTE	6,051	5,965

4.4 Housing Revenue Account (HRA)

- 4.4.1 Overall, the HRA is projected to breakeven (Appendix 2). 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 e.g. garden aid and adaptation expenditure.
- 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. 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 projected balance of £9.080m at March 2017, which incorporates a transfer of £0.693m from Earmarked Reserves. At its meeting on 19 December, Council made two decisions with implications for the general fund reserve. Firstly, a decision was taken on equal pay settlements which will impact on the reserve. Secondly, the decision on the new Council HQ may require fees paid to date to be treated as revenue and thus met from this reserve.
- 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 brought forward from 2016/17 and movements on the fund are detailed as follows:

Printworks (£0.203m)

Having regard to the downward trend in printworks income, the planned replacement of printing equipment was reassessed and £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)

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 has been 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)

The funding will be used 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 now due to be spent in 2017/18. The balance of £0.333m will be spent in 2018/19. 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 now be utilised in 2017/18.

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 £0.500m from Repairs and Renewals has already been earmarked to support this capital expenditure and it is proposed to increase this by a further £0.270m, with the balance of £0.389m being utilised to enable the refurbishment of premises following condition surveys.

General Fund Housing (£0.904m)

This will be used 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, with £0.262m to be spent in 2016/17. 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.

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. Funding of £0.093m is due to be spent in 2016/17 with the balance of the fund being utilised in 2017/18.

4.5.5 Earmarked Reserves

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

Devolved Schools Management (£3.890m)

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 and accounts for ring fenced external funding monies. The remaining balance of £1.995m 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.

As indicated in the October report 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 £0.624m 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 £0.095m 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.

Spend to Save (£3.136m)

Funding of c£2.5m was earmarked to help cover the costs of voluntary severance, with the remaining balance of c£0.6m used 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 are being funded by the Council's mainstream resources. It is therefore proposed to fund a number of initiatives emerging from the Strategic and Improvement Reviews currently underway. These include the following:

Baler for processing recyclates

The purchase of a baler for processing recyclates will help to ensure the Council maximises income from waste processing and reduce pressure on the existing budget for managing waste. The cost of the baler is £180,000 and estimated to generate additional income of £145,000 per annum, with a payback period of 15 months.

SWIS Project Manager

A project manager is being 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.

4.5.6 Linkage with 2017/18 Revenue Budget

As detailed above and noted in the report to Council on 19 December, the reserves are fully committed and not available to support the revenue Budget gap. However, a potential option open to Members is to fund some of these commitments through the capital programme, which would then free up the reserve balances to be used as a contribution towards the 2017/18 savings targets. The amount that could be utilised in these terms is £2.870m. The capital grant settlement for 2017/18 was announced by the Scottish Government on 15 December 2016. The settlement for Falkirk Council is better than anticipated. As a result, there could be scope to use the additional grant to substitute for the planned application of reserves. In turn the following commitments could be incorporated into the capital programme, £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.

It is highlighted that the Reserves paragraphs already reflect a contribution of £0.656m towards bridging the 17/18 Budget gap with respect to Printworks and Devolved Schools Management. Moreover, the Budget report to Council on 19 December showed an indicative £2m from the General Fund reserve towards bridging the gap. Council would need to be very careful of the quantum applied to closing the gap from reserves recognising that this is not dealing with the underlying difference between sustainable spend and resources. Moreover, Council would need to be alert to the fact that any deployment of reserves are added straight into the gap for the subsequent financial year.

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 £2.025m 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 £2.025m (0.6%) below the resources available. The projected General Fund balance for 2016/17 is £9.080m.
- 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

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Date: 22 December 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

	Budget	Projected	(Fav)/ Adv		Previous
	£'000	Outturn	Variance		(Fav)/Adv
		£'000	£'000	%	£'000
Childrens Services	185,207	185,013	(194)	(0.1)	(43)
Social Work - Adult Services	9,659	9,401	(258)	(2.7)	(286)
Development Services	32,964	33,155	191	0.6	45
Corporate & Housing Services	13,571	12,254	(1,317)	(9.7)	(852)
Trading Accounts	(512)	(511)	1	(0.2)	1
Provision for Budget Pressures	1,500	-	(1,500)	(100.0)	(1,520)
Sub - Total	242,389	239,312	(3,077)	(1.3)	(2,635)
Falkirk Community Trust	11,934	11,934	-	-	-
Valuation Board	1,022	1,022	-	-	-
Integration Joint Board	59,512	59,512	-	-	-
Compensatory Lump Sums	-	1,490	1,490	-	1,160
Adj. for Capital Financing Costs / Capital Charges	15,710	15,482	(228)	(1.5)	(228)
NET EXPENDITURE	330,567	328,752	(1,815)	(0.5)	(1,703)
Financed By :					
General Revenue Funding	205,386	205,386	-	-	-
Non-Domestic Rates	68,028	68,028	-	-	-
Council Tax / Council Tax Reduction Scheme	54,953	55,163	(210)	(0.4)	(210)
NET INCOME	328,367	328,577	(210)	(0.1)	(210)
SURPLUS/(DEFICIT)	(2,200)	(175)	(2,025)	(0.6)	(1,913)
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		9,080			
Reserves Strategy Policy - Lower Threshold		6,600			

FALKIRK COUNCIL

HOUSING REVENUE ACCOUNT

PROJECTED REVENUE OUTTURN STATEMENT 2016/17

	<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	Projected Balance 31/03/2017 £'000
Development	Roads	80	(80)	-	-
	Waste Strategy	118	(118)	-	-
	Computer Software	130	(130)	-	-
	Vehicle Replacement Programme	533	-	-	533
	Crematorium	200	-	-	200
	Birkhill Mine Demolition	51	(51)	-	-
	Pavilion Improvement	50	(50)	-	-
Social Work	Older People's Accommodation	1,159	(156)	-	1,003
Corp & Housing	Printworks	203	-	(156)	47
	General Fund Housing	904	(262)	-	642
	Citizens Advice Bureau	111	-	-	111
	Travelling Peoples Site)	73	(73)	-	-
	Municipal Buildings Lift Repair)	33	(33)	-	-
	Mobile & Flexible Working	339	(93)	-	246
Other	Mariner Centre - Lift Repairs	37	-	(37)	-
TOTAL		4,021	(1,046)	(193)	2,782

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	(1,100)	(500)	2,290
Economic Development	1,003	(155)	-	848
Central Energy Efficiency	500	-	-	500
Insurance	5,180	-	-	5,180
Spend to Save	3,136	(218)	-	2,918
TOTAL	13,709	(1,473)	(500)	11,736

OVERAL TOTAL	17,730	(2,519)	(693)	14,518
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