

The background of the page is a light yellow color. Overlaid on this is a large, faint, light blue outline of the coat of arms of the Government of Yukon. The coat of arms features a crown at the top with four maple leaves. The shield is divided into four quadrants: top-left shows a gold cross on a blue background; top-right shows a white moose head on a blue background; bottom-left shows a white sailing ship on a blue background; bottom-right shows a white eagle with wings spread on a blue background. A banner at the bottom contains the motto 'A NE FOR A' in white capital letters.

AGENDA ITEM

7

**Projected Financial Position
2017/18**

Falkirk Council

Title: Projected Financial Position 2017/18
Meeting: Executive
Date: 17 October 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 2017/18. It also provides an update on the position with Reserves consistent with the policy approved by the Executive in January 2015.

2. Recommendations

2.1 The Executive is invited to note:

- (1) the Council's projected year-end financial position for 2017/18,**
- (2) the position with respect to Reserves**

3. Background

- 3.1 Following the Council's approved 2017/18 budget in February 2017 and the update report to Executive in August 2017, this report provides details of progress in 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 31 March 2018 is forecast to be £329.7m which is £2.144m (0.6%) below the resources available. This is a marginal movement of £0.102m from the position reported in August. The overall variance is primarily due to lower employee costs and capital charges partly offset by the increased cost of care packages for children looked after away from home in both external fostering placements and residential care. The lower employee costs are consistent with the Budget report presented to Members in February which anticipated savings, primarily from actions taken relating to voluntary severance.
- 4.1.3 The reasons for significant overall deviations from budget are described below:-

Children's Services – (over budget by £1.169m; 0.6%)

(i) Education (over budget by £0.145m)

The Education Division of the Service is projecting broadly in line with budget. In terms of significant variations, higher property costs are offset by a reduction in residential schools expenditure, as a result of a reduced number of children in these schools, and lower employee costs due to vacant posts. However, there is the possibility that the budget saving from the refinancing of the NPDO schools project will not be achieved in the current financial year due to the complexity involved in the negotiations with the various senior debt lenders. A sum of £1.300m has been earmarked from the Devolved Schools Management reserve to offset this pressure if it arises.

(ii) Social Work – Children & Families (over budget by £1.024m)

The overspend is primarily due to the costs associated with providing care packages for children looked after away from home in both external fostering placements and residential care, where the demand remains volatile and unpredictable. These additional costs have been partially offset by a reduced number of children in residential schools. Whilst the Service remains committed to making efficiencies in both fostering and residential placement provision both remain highly challenging and financially volatile areas. This is demonstrated in the increase in overspend of £340k since the August report. Secure care is required for some youngsters and is determined on their needs and risks. Secure care is high cost with weekly fees set within a national framework. Additional costs are being incurred as a result of obligations under the Children and Young People Act in relation to kinship care, continuing care and after care provision. At this stage, there are indications that the projected spend may increase further, however, work is ongoing within the Service to mitigate this.

Social Work Adult Services (under budget by £0.472m; 8.2%)

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 within Day Centres and Council run Care Homes and an underspend within Supporting People.

Development Services (over budget by £0.135m; 0.5%)

The Service is currently projecting an overspend which is mainly due to additional costs associated with the collection and disposal of waste. In June the Executive agreed to review collection and disposal arrangements and the outcome of the review may have financial consequences. This has been partially offset by lower employee costs and increased income.

Corporate & Housing Services (under budget by £1.946m; 6.8%)

(i) General Fund Housing (under budget by £0.373m)

In line with the last financial year, there are lower than anticipated staff costs within Welfare Advice, Homeless and Private Sector Housing.

(ii) Central Support Services (under budget by £1.573m)

An anticipated underspend on staffing costs across all central support services is the most significant factor contributing to the projection. This position is consistent with the previous financial year and is primarily a result of actions already taken in terms of voluntary service and future budget savings. The overall effect is to reduce the projected costs of Central Support Services to the General Fund by £1.573m.

(iii) Miscellaneous Services

At this stage in the financial year we are projecting Miscellaneous Services to be on budget.

Integration Joint Board

For 2017/18, a net sum of £60.351m (£58.610m 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, an underspend of £0.224m is anticipated. The projected underspend is related to the ring-fenced HRA element. To achieve the aforementioned outturn, IJB need to deliver the £2m savings target in full and manage the risks around the increase in external home care purchase including spend in Discharge to Assess.

Capital Financing Costs (under budget by £0.350m; 2.4%)

An underspend of £0.350m is forecast and is due to a reduction in borrowing for 2016/17. This reduction in borrowing is mainly due to the re-profiling of Scottish Government grant for the new Carrongrange High School from 2017/18 to 2016/17 and slippage in the 2016/17 Capital Programme, both of which have previously been reported to the Executive.

Employee Related Liabilities (£0.220m)

The actual costs of compensatory lump sums paid as a result of employees leaving through voluntary severance are £0.220m. Currently there are a very small number of voluntary severance applications still to be considered. As the Council moves forward with the budget exercise these, along with any new applications, will be reviewed and the projection updated accordingly.

Council Tax (over budget by £0.400m; 0.7%)

The increase in the council tax yield is due to two main factors:-

- a) High volume of new properties and band increases added to valuation list, with retrospection;
- b) Significant reduction in exemptions, again with retrospection, in relation to exempt empty properties.

4.2 Trading Account

- 4.2.1 The overall surplus of Building Maintenance is £0.504m, which is in line with budgeted position.

4.3 Workforce Changes

- 4.3.1 The Budget report presented in February noted the actions required to balance the budget would see reductions in the workforce but noted that the Council must continue to plan for savings required in future years. As a result, officers will continue to use the following options to achieve savings:-

- 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 | 16 | 10 |
| Severance | 163 | 137 | 19 |

Overall, from August 2015 to August 2017, headcount and FTE have reduced as follows:

| | August 2015 | August 2016 | August 2017 |
|-----------|------------------------|------------------------|------------------------|
| Headcount | 7,244 | 7,056 | 7,002 |
| FTE | 6,107 | 5,939 | 5,905 |

4.4 Housing Revenue Account (HRA)

- 4.4.1 Overall, the HRA spending of £61.02m (Appendix 2) is in line with budget. Projected savings in staff costs and central support costs will provide additional Capital Financed from Current Revenue [CFCR] to augment the resources available to undertake housing investment. The figure 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 2017 was £5.093m and no application from reserves is currently planned for 2017/18. 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 - £10.8m) 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 £10.373m at March 2018.
- 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 over £0.100m and the anticipated movements on the fund are detailed below. Balances below £100,000 will be reviewed to determine whether they are still required for the intended purpose or can be returned to the General Fund.

Roads Signage (£0.165m)

The Executive agreed on 27 September 2016 that the Council would pursue Decriminalised Parking Enforcement (DPE) in response to Police Scotland withdrawing its traffic warden service. This required the Council to formally apply to the Scottish Government seeking a Designation Order in accordance with the Road Traffic Act 1991.

As part of this process Falkirk Council was required to undertake a review of existing waiting restrictions to ensure that DPE could be properly enforced. The outcome of the review required remedial works to existing traffic signs and road markings. This work is currently underway and the £0.165m set aside will be fully utilised during the current financial year to augment existing network maintenance budgets committed for these remedial works.

Strategic Property Review (£0.750m)

The Council is undertaking a comprehensive review of its property assets including its leased portfolio. This is anticipated to result in withdrawal from a number of existing leases and provision for the associated removal and dilapidations costs is necessary. As a consequence a sum of £0.750m has been earmarked to assist these works. This will be kept under review pending decisions relating to those properties affected.

Social Work Services Properties (£0.180m)

The balance of £0.180m has been retained for revenue repairs on social work properties with £0.088m currently anticipated to be utilised this financial year.

Procurement (£0.102m)

During 2016/17 additional income was generated by the Procurement division through the adoption of volume rebate clauses within a range of tenders. The total unbudgeted additional income is £0.102m and was carried forward to 2017/18. This income will be utilised in 2017/18 to support the delivery of a number of spend to save procurement improvements workstreams.

General Fund Housing (£0.267m)

The £0.267m will be utilised in 2017/18 to upgrade the Council's hostel accommodation to help reduce future accommodation and support costs.

Citizens Advice Bureau (£0.111m)

In February 2015 the Executive agreed 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. It is expected that a contract will be let in the next few months with a view to having a preferred bid selected by early December and work starting in January 2018.

Mobile & Flexible Working (£0.247m)

In December 2014 the Executive approved a project on Mobile and Flexible working. Funding has been provided to help cover the additional revenue costs required to undertake the project. It is anticipated that the £0.247m will be fully utilised in the current financial year.

4.5.5 Earmarked Reserves

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

Devolved Schools Management (£3.356m)

The balance on the fund at 31 March 2017 is £3.356m. A sum of £1.300m has been provisionally earmarked to offset the possibility that the refinancing savings from the NPDO schools project will not be achieved in 2017/18 as noted above in the report.

Of the remaining balance, £1.200m reflects the year end carry forward balances held at individual schools for use by headteachers and ring fenced external funding monies. A further £0.550m will be used to offset teaching costs in 2017/18 with the remaining balance of c£0.300m earmarked to help manage the expected growth and expansion in early years provision and increased demand for places from qualifying 2 year olds.

Economic Development (£0.369m)

The fund has £0.284m for property maintenance/dilapidations works at Meeks Road, Almond Court and Victoria Mills (Bo'ness) and £0.085m for business support/landscape Initiatives including delivery of tourism signage works.

Central Energy Efficiency Loan Fund (£0.507m)

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. It is anticipated that £0.325m will be spent through the Scottish Government's Non-Domestic Energy Efficiency Framework (NDEEF) in the current financial year and the balance in 2018/19. This will be dependent upon the entire works programme having achieved a key milestone payment stage, as defined in the NDEEF arrangements. These works will improve energy efficiency and reduce costs at up to 15 non-domestic buildings, including schools, leisure centres and care homes.

Insurance Fund (£5.200m)

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)

The Executive previously agreed to fund the following projects

Baler for processing recyclates

The purchase of a baler for processing recyclates will help to ensure the Council maximises income from waste processing and offset increasing costs for managing waste. It is anticipated that funding of £0.225m will be utilised during 2017/18.

SWIS Project Manager

A project manager has been 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, with circa £40,000 required in the current financial year.

Health & Social Care Partnership

A proposal to deliver change and c£2.1m savings across the Health & Social Care Partnership will require additional temporary staffing costing £0.325m. It is estimated that £0.140m will be utilised in the 2017/18 and the remainder in the following financial year.

Of the remaining balance funding of c£1.9m is earmarked to help cover the costs of voluntary severance, with a further c£0.6m 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.

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 expenditure is £2.144m (0.6%) 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 £329.7m which is £2.144m (0.6%) below the resources available. The projected General Fund balance for 2017/18 is £10.373m.
- 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.

Director of Corporate & Housing Services

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Date: 02 October 2017

APPENDICES

Appendix 1 – General Fund Projected Outturn Statement 2017/18

Appendix 2 – Housing Revenue Account Projected Outturn Statement 2017/18

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 2017/18

| | <u>Budget</u> | <u>Projected</u> | <u>(Fav)/ Adv</u> | | <u>Previous</u> |
|--|----------------|-----------------------|-------------------|--------------|-------------------|
| | <u>£'000</u> | <u>Outturn</u> | <u>Variance</u> | | <u>(Fav)/ Adv</u> |
| | | <u>£'000</u> | <u>£'000</u> | <u>%</u> | <u>Variance</u> |
| | | | | | <u>£'000</u> |
| Childrens Services | 182,253 | 183,422 | 1,169 | 0.6 | 740 |
| Social Work - Adult Services | 5,776 | 5,304 | (472) | (8.2) | (567) |
| Development Services | 28,831 | 28,966 | 135 | 0.5 | 135 |
| Corporate & Housing Services | 28,628 | 26,682 | (1,946) | (6.8) | (1,564) |
| Trading Accounts | (504) | (504) | - | - | - |
| Provision for Budget Pressures | 500 | - | (500) | (100.0) | (500) |
| Sub - Total | 245,484 | 243,870 | (1,614) | (0.7) | (1,756) |
| Falkirk Community Trust | 11,433 | 11,433 | - | - | - |
| Valuation Board | 1,215 | 1,215 | - | - | - |
| Integration Joint Board | 58,610 | 58,610 | - | - | - |
| Employee Related Liabilities | | 220 | 220 | - | - |
| Capital Financing Costs / Capital Charges | 14,774 | 14,424 | (350) | (2.4) | (350) |
| NET EXPENDITURE | 331,516 | 329,772 | (1,744) | (0.5) | (2,106) |
| Financed By : | | | | | |
| General Revenue Funding | 202,121 | 202,121 | - | - | - |
| Non-Domestic Rates | 65,438 | 65,438 | - | - | - |
| Net Council Tax | 60,657 | 61,057 | (400) | (0.7) | (140) |
| NET INCOME | 328,216 | 328,616 | (400) | (0.1) | - 140.00 |
| SURPLUS/(DEFICIT) | (3,300) | (1,156) | (2,144) | (0.6) | (2,246) |
| Add : General Fund Surplus as at 1 April 2017 | | 11,529 | | | |
| Transfers (to)/from Earmarked Funds (see Appendix 3) | | - | | | |
| General Fund Balance as at 31 March 2018 | | 10,373 | | | |
| Reserves Strategy Policy - Range | | 6,600 - 10,000 | | | |

| |
|--|
| FALKIRK COUNCIL HOUSING REVENUE ACCOUNT PROJECTED REVENUE OUTTURN STATEMENT 2017/18 |
|--|

| | <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 | 6,731 | 5,816 | (915) | (13.6) | (900) |
| Property Expenses | 22,967 | 22,967 | - | - | - |
| Transport Expenses | 12 | 12 | - | - | - |
| Supplies and Services | 3,486 | 3,486 | - | - | - |
| Third Party Payments | 1,780 | 1,780 | - | - | - |
| Support Services | 5,070 | 4,752 | (318) | (6.3) | (318) |
| Capital Charges | 19,598 | 20,798 | 1,200 | 6.1 | 1,225 |
| Sub-Total | 59,644 | 59,611 | (33) | (0.1) | 7 |
| Integration Joint Board | 1,414 | 1,414 | - | - | - |
| Compensatory Lump Sums | - | - | - | - | - |
| Gross Expenditure | 61,058 | 61,025 | (33) | (0.1) | 7 |
| Income | 61,058 | 61,025 | 33 | 0.1 | (7) |
| Surplus/(Deficit) | - | - | - | | - |
| Add: Surplus brought forward at 1 April 2017 | | 5,093 | | | |
| Projected Surplus at 31 March 2018 | | 5,093 | | | |

ANALYSIS OF REPAIRS & RENEWALS FUND

| Service | | Balance 01/04/2017 £'000 | Spend £'000 | Transfers £'000 | Balance 31/03/2018 £'000 |
|----------------|---------------------------------|---|------------------------|----------------------------|---|
| Development | Roads | 80 | - | - | 80 |
| | Roads - Signage | 165 | (165) | - | - |
| | Strategic Property Review | 750 | - | - | 750 |
| | Crematorium | 76 | - | - | 76 |
| | Birkhill Mine Demolition | 38 | - | - | 38 |
| | Pavilion Improvement | 50 | - | - | 50 |
| Social Work | Older People's Accommodation | 180 | (88) | - | 92 |
| Corp & Housing | Printworks | 48 | (4) | - | 44 |
| | Procurement | 102 | (102) | - | - |
| | General Fund Housing | 267 | (267) | - | - |
| | Citizens Advice Bureau | 111 | (111) | - | - |
| | Travelling Peoples Site | 35 | (35) | - | - |
| | Municipal Buildings Lift Repair | 2 | (2) | - | - |
| | Mobile & Flexible Working | 247 | (247) | - | - |
| TOTAL | | 2,151 | (1,021) | - | 1,130 |

ANALYSIS OF EARMARKED RESERVES

| Description | Balance 01/04/2017 £'000 | Spend £'000 | Transfers £'000 | Balance 31/03/2018 £'000 |
|------------------------------|---|------------------------|----------------------------|---|
| Devolved Schools Management* | 3,356 | - | - | 3,356 |
| Economic Development | 369 | - | - | 369 |
| Central Energy Efficiency | 507 | (325) | - | 182 |
| Insurance | 5,200 | - | - | 5,200 |
| Spend to Save | 3,136 | (405) | - | 2,731 |
| TOTAL | 12,568 | (730) | - | 11,838 |

| | | | | |
|---------------------|---------------|----------------|----------|---------------|
| OVERAL TOTAL | 14,719 | (1,751) | - | 12,968 |
|---------------------|---------------|----------------|----------|---------------|

*As noted in the report, £1.3m has been provisionally earmarked to offset the possibility that the savings from the refinancing of the NPDO schools project will not be achieved in 2017/18.