

The background of the slide features the coat of arms of the Government of Nunavut. It is a shield divided into four quadrants. The top-left quadrant shows a yellow sun with rays. The top-right quadrant shows a white caribou head with antlers. The bottom-left quadrant shows a white sailing ship on blue wavy lines representing water. The bottom-right quadrant shows a white eagle with spread wings. Above the shield is a crown with four white flowers. Below the shield is a banner with the text "ANE FOR A'".

# **Agenda Item 11**

## **Projected Financial Position 2018/19**

**Falkirk Council**

**Title:** Projected Financial Position 2018/19  
**Meeting:** Executive  
**Date:** 14 August 2018  
**Submitted By:** Director of Corporate & Housing Services

**1. Purpose of Report**

- 1.1 This report presents an initial update on the financial position of the Council for 2018/19. 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 2018/19;**
- (2) the position with respect to Reserves; and**
- (3) Instruct Service Directors to take appropriate actions to maintain their costs within the approved budget.**

**3. Background**

- 3.1 Following the Council's approved 2018/19 budget in February 2018 and the 2017/18 outturn report to Executive in June 2018, this report provides details of 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 31 March 2019 is forecast to be £341.0m which is £5.380m (1.6%) above the resources available. This is primarily due the overspend on care packages for children looked after away from home. The £1m additional grant which had to be included in the 2017/18 accounts artificially inflates the overspend as it is covered in the reserves figure. Members should note that pay awards for the current financial year have not been settled. Any unfunded awards over the amount budgeted will increase the projected overspend.

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

Children's Services – (over budget by £3.279; 1.7%)

(i) Education (over budget by £0.284m)

The Education Division of the Service, which is by far the largest part, is projecting a slight overspend with a projected outturn of £0.284m above budget at this early stage of the financial year. In terms of significant variations, higher property costs and an increase in expenditure on residential schools, as a result of a higher number of on children in these schools, are offset by a lower employee costs due to vacant posts. There is also a projected overspend due to a payment to the Community Trust for Outdoor activities.

(ii) Social Work – Children & Families (over budget by £2.995m)

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. The average number of young people in external residential placements in 2017/18 was 38, however this has increased to 41 as at June 2018 and this is largely due to the impact of young people remaining longer in placement (Continuing Care) resulting from new duties stemming from the Children and Young People Act. Continuing Care costs have started to have an impact on all areas of care package expenditure, but most financially significant are those related to residential care and it is estimated that in 2018/19 these costs could amount to £0.920m across all care packages. These additional costs have been partially offset by staff savings due to vacancies.

Members will be aware of the Strategic Service Review of Children & Families and the resulting Strategy called "Closer to Home". The Strategy has been developed to lead Children's Services through transformational change to ensure that care experienced children and young people and those on the edges of care are afforded the right support at the right time.

The work which underpins the Strategy is underway and we now have many examples where creative relationship based practice and Self-Directed Support packages have supported children at home or returning home.

The Strategy Action Plan details milestones alongside activities - numerous projects are in place. Creating options for young people leaving care (supported accommodation) will create another significant step in budget management and is expected to deliver results in 2018/19. Without new initiatives and investment in family support, community based support and partnership working, the overspend will increase over the next 3 years.

#### Development Services (on budget)

The Service is currently shown to be on budget, however it should be noted that there are significant compensating variances within this current projection. The main reasons for this include an overspend in Waste of £0.947m which is mainly due to additional costs associated with the collection and disposal of waste. There is a separate report on the matter on this agenda. Grounds Maintenance also have an anticipated overspend of £0.145m. There is an anticipated under recovery of income of £0.176m within Car Parking due to income continuing to be lower than the budgeted target. These overspends are offset by various employee budget underspends across the Service of £0.833m, energy savings on street lighting of £0.190m, and reduced transportation contract costs of £0.245m.

#### Corporate & Housing Services (under budget by £0.129m; 0.5%)

(i) General Fund Housing (over budget by £0.119m)

A projected overspend of £0.119m is attributable to planned spending on procurement improvement and hostel accommodation. This expenditure will be fully funded from the Repairs & Renewals fund (section 4.5.4).

(ii) Central Support Services (under budget by £0.248m)

An anticipated underspend on staffing costs across all central support services (£1.084m) is the most significant factor contributing to the projection. This saving, along with an underspend in property costs, is partially offset by increased ICT costs and a reduced recharge of costs to non-general fund services of £0.426m. The overall effect is to reduce the projected costs of Central Support Services to the General Fund by £0.248m.

There is also £0.191m of staff costs for the Programme Change Co-ordinators and £0.40m for the SWIS Project Manager which will be funded from spend to save (section 4.5.5)

(iii) Miscellaneous Services

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

#### Social Work Adult Services (over budget by £0.056m; 1.1%)

This budget is in large part made up of 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 budget has been rebased in 2018/19, the projected small overspend includes

£0.015m commitment that will be funded from the Repairs & Renewals Fund (section 4.5.4)

#### Integration Joint Board

For 2018/19, a net sum of £62.162m (£60.421m from the General Fund) has been passed to the IJB. This sum will be delegated back to the Council for 2018/19. It is for the IJB to manage its expenditure within the resources provided. Members should be aware that although the delegated Council Services are projected to be on budget, the outturn is dependent on the full delivery of approved savings and an additional cost of £0.325m is projected in order to deliver the savings and transformational changes. The additional cost is funded from Spend to Save and approved by Council (section 4.5.5). There is continued financial pressure on the costs on home care provision, however these cost pressures are anticipated to be offset by various underspends across Adult Social care.

#### Employee Related Liabilities (£0.006m)

The actual cost of compensatory lump sums paid as a result of employees leaving through voluntary severance is £0.006m. Although there has been very little movement on Voluntary Severance to date this will continue to be monitored and updated accordingly.

#### Capital Financing Costs (over budget by £0.201m; 1.2%)

As advised in the Provisional Financial Position 2017/18 reported to the June Executive, there was an early debt repayment of c£0.9m in 2017/18. This has resulted in a reduction in future loan charges to revenue. In addition there was slippage in the 2017/18 General Services capital programme (see separate agenda item). The combination of these factors have resulted in a saving of £0.600m. This has been offset by capital spend of £0.367m which will be funded from the Repairs & Renewals Fund, £0.369m funded from Economic Development Fund and £0.434m which will be funded from the Central Energy Efficiency Fund (section 4.5.4)

#### Council Tax (on budget)

In the first quarter of the year new properties on valuation list are slightly behind forecast but it is expected that this will recover in remainder of year. The yield may also be slightly affected by a larger than expected uptake (c. £50k) of new care leavers exemption, albeit this will significantly benefit the individual households.

#### General Revenue Grant (under budget by £1.000m)

The 2018/19 Local Government Financial Settlement included a payment of £1.000m received in March 2018. Scottish Government indicated that this funding be included in the 2017/18 accounts and Audit Scotland advice is also that this should be recognised as income in 2017/18. This funding was carried forward in the General Fund reserve balance and will be utilised in 2018/19.

## 4.2 Trading Account

- 4.2.1 The overall surplus of Building Maintenance is £0.508m, 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:-

	<b>No of Posts</b>			
	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Seeking Redeployment	95	16	9	10
Severance	163	137	28	3

Overall, from June 2015 to June 2018, headcount and FTE have reduced as follows:

	<b>June 2015</b>	<b>June 2016</b>	<b>June 2017</b>	<b>June 2018</b>
Headcount	7,239	7,004	6,966	6,942
FTE	6,095	5,896	5,861	5,845

## 4.4 Housing Revenue Account (HRA)

- 4.4.1 Overall, the HRA spending of £62.7 (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 2018 was £5.093m and no application from reserves is currently planned for 2018/19. 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 - £11.1m) 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 £8.162m at March 2019. Members should note that the evolving positions on historic child abuse and equal pay claims may well result in future calls on the Council's reserve, and quite possibly, of a significant sum. The uncertainty over pay claims has also been flagged in this report. Moreover, the projected overspend reflected in this report and corresponding depletion in the reserve balance will mean that the significant contribution from the General Reserve to help balance the Revenue Budget, which has become normal in recent years, will be fettered going forward. This position chimes with the warnings flagged by the Accounts Commission/Audit Scotland in their most recent Financial Overview of Scottish Local Government.

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. Any 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 (£0.100m)

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. Remedial works to existing traffic signs were completed in 2017/18 and the remaining road works are in progress and will be completed by October 2018.

#### 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 properties with provision for investment in assets retained and dilapidation costs for buildings being vacated. As a consequence a sum of £0.750m is earmarked to assist these works. A report on the Strategic Property Review is also on this Executive agenda.

#### Social Work Services Properties (£0.105m)

The balance of £0.105m has been retained for major repairs on Social Work properties with £0.015m already committed to be utilised in 2018/19.

#### Procurement (£0.102m)

Additional unbudgeted income of £0.102m was generated by the Procurement division through the adoption of volume rebate clauses within a range of tenders. This income will be utilised in 2018/19 to support the delivery of a number of procurement improvement workstreams.

#### General Fund Housing (£0.267m)

£0.067m will be utilised in 2018/19 to upgrade the Council's hostel accommodation to help reduce future accommodation and support costs. £0.200m will be returned to the General Fund.

#### 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. This work is now complete with these funds being fully utilised in 2018/19.

#### 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 this balance will be carried forward to be utilised next financial year.

#### Falkirk Community Trust ICT (£0.183m)

Within the Council's capital programme there is an approved budget of £0.273m for Falkirk Community Trust to undertake ICT improvements. In 2017/18 funding of £0.183m to undertake the work was switched to revenue (with a compensating adjustment to the capital programme). The funding will be paid to the Trust on completion of the works through the service payment arrangements. A similar adjustment will be made in 2018/19 for the balance of £0.090m.



#### 4.5.5 Earmarked Reserves

The position with each of the funds is as follows:

##### Devolved Schools Management (£2.142m)

The balance on the fund at 31 March 2018 is £2.142m. £0.834m reflects the year end carry forward balances held at individual schools for use by headteachers and ring fenced external funding monies that cover periods beyond the financial year end. A further £0.758m has been earmarked to help proactively manage demographic pupil roll growth pressures and in year capacity expansion within the school sectors. It also allows for places and support to be provided for eligible two year olds should demand from those qualifying families increase. It is anticipated that the balance of £0.550m, initially allocated to offset teaching costs, can now be transferred back to the General Fund to partially offset the current projected overspend in this Service.

##### Economic Development (£0.369m)

The fund has £0.284m for property maintenance/dilapidations works to the Council's industrial and commercial estate and £0.85m for business support/landscape initiatives including delivery of Falkirk THI. These funds will be fully utilised in 2018/19.

##### Central Energy Efficiency Loan Fund (£0.522m)

The loan fund was initially established in 2014 with money provided by the Scottish government to enable energy management projects. The Council was awarded another £0.100m in 2017/18 and a further £0.400m in 2018/19 of match loan funding from Salix, a government funded company which provides grants and loans to public organisations across the UK. Projects have been identified to commit £0.434m the available funds in 2018/19. These works will improve energy efficiency and reduce costs at non-domestic buildings including schools, leisure centres, and care homes. The energy savings generated are transferred back to the fund to allow further future projects to be undertaken.

##### Insurance Fund (£5.515m)

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 and potential historical abuse claims. The Fund is valued every three years and quotes have now been invited for the 2018 valuation, the findings of which will be reported back to Members in due course.

##### Revenue Grants (£3.269m)

The Revenue Grants reserve consists of the carry forward of grant funding not yet utilised. The largest of these are within Children's Services for the Pupil Equity Fund, which is allocated directly to schools, and the early years expansion programme to increase the provision of nursery hours from 600 to 1,140 by August 2020. This funding will be credited back to Services to

appropriately match expenditure at the end of the financial year and will not affect the Council's overall position.

#### Spend to Save (£2.870m)

The Executive previously agreed to fund the following projects

##### 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 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 £0.080m, with £0.040m used in 2017/18 and the remaining £0.040m being used in the current financial year.

##### Health & Social Care Partnership

£0.325m was provided to support Social Work Adult Service in delivering the Savings approved and transformational changes. The Reablement Project team has been fully established and it is expected that the full amount of £0.325m will be utilised in 2018/19.

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, funding of Programme Management Co-ordinators 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 £5.380m (1.6%) above 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 The report has flagged risk to the final outturn position e.g. with respect to pay awards.

## **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 £341.0m which is £5.380m (1.6%) above the resources available. The projected General Fund balance for 2018/19 is £8.162m. The report has highlighted a “tightening” of the Council’s financial position and as noted will have implications for the forthcoming Budget round. The position will need to be monitored closely.
- 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.

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Director of Corporate & Housing

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**Date:** 31 July 2018

## **APPENDICES**

Appendix 1 – General Fund Projected Outturn Statement 2018/19  
Appendix 2 – Housing Revenue Account Projected Outturn Statement 2018/19  
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 2018/19

	<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>£'000</u>	<u>%</u>
Childrens Services	188,939	192,218	3,279	1.7
Social Work - Adult Services	5,053	5,109	56	1.1
Development Services	28,798	28,798	-	-
Corporate & Housing Services	25,802	25,673	(129)	(0.5)
Trading Accounts	(508)	(508)	-	-
Sub - Total	248,084	251,290	3,206	1.3
Falkirk Community Trust	10,646	10,919	273	2.6
Valuation Board	1,245	1,245	-	-
Integration Joint Board	60,421	60,746	325	0.5
Employee Related Liabilities	-	6	6	-
Capital Financing Costs / Capital Charges	16,209	16,779	570	3.5
<b>NET EXPENDITURE</b>	<b>336,605</b>	<b>340,985</b>	<b>4,380</b>	<b>1.3</b>
<b>Financed By :</b>				
General Revenue Grant	204,643	203,643	1,000	0.5
Non-Domestic Rates	65,958	65,958	-	-
Net Council Tax	63,704	63,704	-	-
<b>NET INCOME</b>	<b>334,305</b>	<b>333,305</b>	<b>1,000</b>	<b>0.3</b>
<b>SURPLUS/(DEFICIT)</b>	<b>(2,300)</b>	<b>(7,680)</b>	<b>5,380</b>	<b>1.6</b>
Add : General Fund Surplus as at 1 April 2017		12,165		
Transfers (to)/from Earmarked Funds (see Appendix 3)		3,677		
<b>General Fund Balance as at 31 March 2018</b>		<b>8,162</b>		
Reserves Strategy Policy - Range	<b>6,600</b>	<b>-</b>	<b>11,100</b>	

## FALKIRK COUNCIL

## HOUSING REVENUE ACCOUNT

## PROJECTED REVENUE OUTTURN STATEMENT 2018/19

	<b><u>Budget</u></b> <b>£'000</b>	<b><u>Projected</u></b> <b><u>Outturn</u></b> <b>£'000</b>	<b><u>(Fav)/ Adv</u></b> <b><u>Variance</u></b> <b>£'000</b>	<b>%</b>
Employee Expenses	6,993	5,777	(1,216)	(17.4)
Property Expenses	23,072	23,072	-	-
Transport Expenses	13	13	-	-
Supplies and Services	3,586	3,586	-	-
Third Party Payments	1,923	1,923	-	-
Support Services	5,029	4,729	(300)	(6.0)
Capital Charges	20,677	22,185	1,508	7.3
Sub-Total	61,293	61,285	(8)	(0.0)
Integration Joint Board	1,414	1,414	-	-
Compensatory Lump Sums	-	-	-	-
Gross Expenditure	62,707	62,699	(8)	(0.0)
Income	62,707	62,699	8	0.0
<b>Surplus/(Deficit)</b>	-	-	-	
Add: Surplus brought forward at 1 April 2017		5,093		
Projected Surplus at 31 March 2018		5,093		

**ANALYSIS OF REPAIRS & RENEWALS FUND**

<b>Service</b>		<b>Balance 01/04/2018 £'000</b>	<b>Spend £'000</b>	<b>Transfers £'000</b>	<b>Balance 31/03/2019 £'000</b>
Development	Roads	80	(80)	-	-
	Roads - Signage	100	(100)	-	-
	Strategic Property Review	750	-	-	750
	Crematorium	76	(76)	-	-
	Birkhill Mine Demolition	38	-	-	38
	Pavilion Improvement	5	-	-	5
Social Work	Older People's Accommodation	105	(15)	-	90
FCT	ICT	183	(273)	90	-
Corp & Housing	Printworks	44	-	-	44
	Procurement	102	(102)	-	-
	General Fund Housing	267	(67)	(200)	-
	Citizens Advice Bureau	111	(111)	-	-
	Mobile & Flexible Working	247	-	-	247
<b>TOTAL</b>		<b>2,151</b>	<b>(824)</b>	<b>(110)</b>	<b>1,217</b>

**ANALYSIS OF INSURANCE FUND**

	<b>Balance 01/04/2018 £'000</b>	<b>Spend £'000</b>	<b>Transfers £'000</b>	<b>Balance 31/03/2019 £'000</b>
<b>Description</b>				
Insurance	5,515	-		5,515

**ANALYSIS OF GENERAL FUND EARMARKED RESERVES**

	<b>Balance 01/04/2018 £'000</b>	<b>Spend £'000</b>	<b>Transfers £'000</b>	<b>Balance 31/03/2019 £'000</b>
<b>Description</b>				
Devolved Schools Management	2,142	(834)	(550)	758
Economic Development	369	(369)	-	0
Central Energy Efficiency	522	(434)	-	88
Revenue Grants	3,269		-	3,269
Spend to Save	2,870	(556)	-	2,314
<b>TOTAL</b>	<b>9,172</b>	<b>(2,193)</b>	<b>(550)</b>	<b>6,429</b>

<b>OVERALL TOTAL</b>	<b>16,838</b>	<b>(3,017)</b>	<b>(660)</b>	<b>13,161</b>
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OVERALL NET MOVEMENT

**(3,677)**