

The background of the slide features a large, light blue watermark of the University of Alberta crest. The crest is a shield divided into four quadrants. The top-left quadrant shows a building, the top-right shows a stag's head with antlers, the bottom-left shows a three-masted sailing ship on waves, and the bottom-right shows an eagle with wings spread. Above the shield is a crown with four floral motifs. Below the shield is a banner with the motto 'ANNE FOR A'.

Agenda Item 12

Projected Financial Position 2018/19

Falkirk Council

Title: Projected Financial Position 2018/19
Meeting: Executive
Date: 16 October 2018
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 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 update report to Executive in August 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 The report to the August Executive noted a projected overspend in net expenditure of £5.380m. However, this variation was partially due to expenditure funded from reserves. For this report, this expenditure has been offset by the contribution from reserves. The overall effect is to reduce the

previously reported overspend to £3.197m, however the impact on the General Fund position reported in August remains the same.

- 4.1.3 Net expenditure at the 31 March 2019 is now forecast to be £345.2m which is £1,966m (0.6%) above the resources available. This is an improvement of £1,231m from the restated August overspend of £3.197m and is primarily due a reduction in the projected overspend within Children's Services.

Members should note that pay awards for the current financial year have still not been settled. Any unfunded awards over the amount budgeted will increase the projected overspend.

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

Children's Services – (over budget by £2.270; 1.1%)

The Service have agreed and taken a number of actions which have helped to reduce the overspend by c£1m from the position reported in August. These include property rationalisation, vacancy management and restricting expenditure. The overall position will continue to be monitored closely during the remainder of the financial year. The Service will continue to identify and take further actions throughout the year as appropriate.

As detailed in section 4.5.5 it should also be noted that £0.795m has been transferred from the DSM Reserve to help partially mitigate the current projected overspend.

(i) Education (under budget by £0.621m)

The Education Division of the Service is projecting an underspend of £0.621m at this stage of the financial year. In terms of significant variations, employee costs have been lower due to vacancies and an underspend is now projected within catering and cleaning services. This has been slightly offset by higher property costs for rates and refuse collection.

(ii) Social Work – Children & Families (over budget by £2.891m)

The overspend has reduced by £0.104m from the position reported in August 2018, mainly due to the transfer of funding from Education to allow the budget for Residential Schools to be reported within Children & Families. The overspend remains 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 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 July 2018, due to the impact of young people remaining longer in placement (continuing care). This is a result of new duties stemming from the Children and Young People Act. Continuing Care costs have started to have a financial impact on all areas of care packages, but this is particularly significant for those related to residential care. It is estimated that in 2018/19 these additional costs could amount to

£0.920m across all care packages. These additional costs have been partially offset by staff savings due to vacancies.

The Closer to Home Strategy has been developed to ensure care experienced children and young people's outcomes improve by maintaining them safely at home with family wherever possible. The work which underpins this Strategy is well underway and the service has many examples where creative relationship based practice and Self-Directed Support packages have supported children to remain at home or to return home.

The action plan which underpins the Strategy details numerous projects all targeted to reduce the budget overspend and deliver savings by the mid-point of the 5 year term. A significant step toward reducing expenditure is expected to be delivered in 2019/20 when new supported accommodation options currently being developed will become available for young people as an appropriate alternative to continuing care. Investment in family support and foster carer recruitment is being considered to provide the increased capacity that will deliver savings.

(iii) Criminal Justice (on budget)

The majority of Criminal Justice expenditure is funded by ring fenced Section 27 grant and this division is projected to come in on budget.

Development Services (on budget)

The Service is currently shown to be on budget. 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 £1.309m which is mainly due to additional costs associated with the collection and disposal of waste. At the meeting on 25 September, the Executive agreed a new waste charter compliant recycling option which will address this issue and bring spend back in line with budget during 2019/20. Grounds Maintenance also have an anticipated overspend of £0.145m. There is an anticipated under recovery of income of £0.203m within Car Parking due to income continuing to be lower than the budgeted target. These overspends are offset by various savings, mainly in employee budgets across the Service of £1.006m, underspends within Bereavement Services £0.141m, additional income from Planning Fees and Building Warrants of £0.120m, energy savings on street lighting of £0.109m and reduced transportation contract costs of £0.200m.

Corporate & Housing Services (under budget by £0.762m; 2.7%)

(i) General Fund Housing (under budget by £0.130m)

Staff savings within Private Sector Housing and Homelessness have been offset by reduced funding within Welfare Advice,

(ii) Central Support Services (under budget by £0.632m)

An anticipated underspend on staffing costs across all central support services (£1.232m) 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 £0.632m.

(iii) Miscellaneous Services (on budget)

Miscellaneous Services is currently projected to be on budget. Within Miscellaneous Services there is the Change Fund of £0.700m, which was approved as part of the budget proposals for 2018/19. This funding was to ensure the programme of change projects agreed by Council under Council of the Future could be successfully delivered. It is anticipated that this will be fully utilised in 2018/19.

Adult Services Infrastructure & Support (over budget by £0.034m; 0.6%)

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 and is currently projecting a small overspend by £0.034m due to the shortfall in telephony budget.

Integration Joint Board

For 2018/19, a net sum of £62.128m (£60.712m from 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. There is continued financial pressure on the costs of home care provision, however these cost pressures are anticipated to be offset by various underspends across Adult Social care. It is worth noting that IJB's Health arm budget is reporting a projected overspend by over £2m.

Employee Related Liabilities (£0.022m)

The actual cost of compensatory lump sums paid as a result of employees leaving through voluntary severance is £0.022m. Although there has been very little movement on Voluntary Severance to date this will continue to be monitored and updated accordingly.

Capital Financing Costs (under budget £0.600m)

As advised in the Provisional Financial Position 2017/18 reported to the June Executive there was slippage in the 2017/18 General Services capital programme resulting in an anticipated underspend of £0.600m.

Council Tax (on budget)

In the first 5 months 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 £1.004m)

The 2018/19 Local Government Financial Settlement included a payment of £1.004m 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 £0.510m, which is slightly higher than the 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	2018/19
Seeking Redeployment	95	16	9	10
Severance	163	137	28	6

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

	August 2015	August 2016	August 2017	August 2018
Headcount	7,244	7,056	7,002	7,035
FTE	6,107	5,939	5,905	5,928

4.4 Housing Revenue Account (HRA)

4.4.1 Overall, the HRA spending of £62.7m (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 £9.806m at March 2019. This is an improvement of £1.644m from the position reported in August, primarily due to the reduction in the projected overspend and the impact of an audit adjustment to the 2017/18 accounts which increased the General Fund balance. 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.

- 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.

Social Work Services Properties (£0.105m)

The balance of £0.105m has been retained for 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 £0.065m of this balance will be utilised in the current year with the balance carried forward and utilised over the next 2 years.

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. To help partially mitigate the current overspend projected within Children's Services a sum of £0.795m has been transferred to the General Fund. The remaining balance of £0.513m 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.

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. It is anticipated that £0.029m will be spent in 2018/19 relating to dilapidation works leaving a balance of £0.340m to be carried forward to 2019/20.

Central Energy Efficiency Fund - CEEF (£0.522m)

Further funding of £0.400m has recently been received which will allow £0.922m of identified energy efficiency upgrade works to be completed in 2018/19. The projects are effectively self funding as savings generated allow for a pay-back into the fund in order to maintain an on-going balance for delivery of future projects.

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 has been credited back to Services to

appropriately match expenditure 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 £1.966m (0.6%) 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 £345.2m which is £1.966m (0.6%) above the resources available. The projected General Fund balance for 2018/19 is £9.806m.
- 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

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Date: 4 October 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 AS AT 31/08/2018

	Budget	Projected	(Fav)/ Adv		Restated
	£'000	Outturn	Variance		Previous
		£'000	£'000	%	(Fav)/ Adv
					Variance
					£'000
Childrens Services	192,329	194,599	2,270	1.2	3,279
Social Work - Adult Services	5,437	5,471	34	0.6	41
Development Services	29,444	29,444	-	-	-
Corporate & Housing Services	28,162	27,400	(762)	(2.7)	(529)
Trading Accounts	(508)	(510)	(2)	0.4	-
Sub - Total	254,864	256,404	1,540	0.6	2,791
Falkirk Community Trust	11,164	11,164	-	-	-
Valuation Board	1,245	1,245	-	-	-
Integration Joint Board	60,712	60,712	-	-	-
Employee Related Liabilities	-	22	22	-	6
Capital Financing Costs	16,259	15,659	(600)	(3.7)	(600)
NET EXPENDITURE	344,244	345,206	962	0.3	2,197
Financed By :					
Revenue Support Grant	206,429	205,425	1,004	0.5	1,000
Non-Domestic Rates	65,958	65,958	-	-	-
Council Tax	63,704	63,704	-	-	-
Earmarked Funds (Appendix 3)	5,853	5,853	-	-	-
NET INCOME	341,944	340,940	1,004	0.3	1,000
SURPLUS/(DEFICIT)	(2,300)	(4,266)	1,966	0.6	3,197
Add : General Fund Surplus as at 1 April 2018		12,165			
Audit Adjustment to 2017/18 Accounts		912			
Transfers (to)/from Earmarked Funds (Appendix 3)		995			
General Fund Balance as at 31 March 2018		9,806			
Reserves Strategy Policy - Range		6,600 - 11,100			

FALKIRK COUNCIL
HOUSING REVENUE ACCOUNT
PROJECTED REVENUE OUTTURN STATEMENT 2018/19

	<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	6,993	5,652	(1,341)	(19.2)	(1,216)
Property Expenses	22,852	22,864	12	0.1	-
Transport Expenses	13	13	-	-	-
Supplies and Services	3,613	3,613	-	-	-
Third Party Payments	1,923	1,923	-	-	-
Support Services	5,029	4,729	(300)	(6.0)	(300)
Capital Charges	20,870	22,470	1,600	7.7	1,508
Sub-Total	<u>61,293</u>	<u>61,264</u>	<u>(29)</u>	<u>(0.0)</u>	<u>(8)</u>
Integration Joint Board	1,414	1,414	-	-	-
Compensatory Lump Sums	-	-	-	-	-
Gross Expenditure	<u>62,707</u>	<u>62,678</u>	<u>(29)</u>	<u>(0.0)</u>	<u>(8)</u>
Income	62,707	62,678	(29)	(0.0)	(8)
Surplus/(Deficit)	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
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 01/04/2018 £'000	Spend £'000	Transfers £'000	Balance 31/03/2019 £'000
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	(183)	-	-
Corp & Housing	Printworks	44	-	-	44
	Procurement	102	(102)	-	-
	General Fund Housing	267	(67)	(200)	-
	Citizens Advice Bureau	111	(111)	-	-
	Mobile & Flexible Working	247	(65)	-	182
TOTAL		2,151	(643)	(200)	1,308

ANALYSIS OF INSURANCE FUND

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

ANALYSIS OF GENERAL FUND EARMARKED RESERVES

Description	Balance 01/04/2018 £'000	Spend £'000	Transfers £'000	Balance 31/03/2019 £'000
Devolved Schools Management	2,142	(834)	(795)	513
Economic Development	369	(29)	-	340
Central Energy Efficiency	522	(522)	-	-
Revenue Grants	3,269	(3,269)	-	-
Spend to Save	2,870	(556)	-	2,314
TOTAL	9,172	(5,210)	(795)	3,167

OVERALL TOTAL	16,838	(5,853)	(995)	9,990
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OVERALL NET MOVEMENT

(6,848)