

FALKIRK COUNCIL

Subject : FINANCIAL POSITION 2009/10
Meeting : POLICY & RESOURCES COMMITTEE
Date: 20 October 2009
Author : DIRECTOR OF FINANCE

1. INTRODUCTION

- 1.1 This report presents the latest update on the Council's financial position and reflects the information recorded for the 5 months to 31 August 2009.

2. GENERAL FUND

- 2.1 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.

In my report to this Committee in August I advised that, in overall terms, net expenditure was forecast to be £2.86m or almost 0.9% above the approved level. Directors were instructed to take appropriate action to more closely align spending with the resources available. However, this latest report indicates that the excess over budget has risen to around £3.1m.

- 2.2 The most significant deviations from budget are described below:-

Education (+£0.493m; 0.3%)

Although there are a number of emerging cost pressures, spending on residential schools remains the most significant.

Social Work Services (+£3.980m; 5.0%)

There has been no reduction in the underlying cost pressures associated with service provision for both Children and Families and Community Care and Mental Health. Higher costs of purchasing these services together with increased costs arising from Single Status appeals are partially mitigated by additional income and staff cost savings. All spending within the Service is subject to rigorous scrutiny.

General Fund Housing Services (+£0.291m; 8.4%)

Spending on the provision of bed and breakfast accommodation remains higher than assumed.

Development Services (+£0.150m; 0.6%)

The projected excess arises wholly from the timing of expenditure on the Local Plan Inquiry which was originally anticipated last year.

Miscellaneous Services (-£0.262m; 3.2%)

Income from interest earned on internal balances is below budget due to the continuation of very low interest rates. However, this has been more than offset by non-recurring income of £0.45m arising from VAT recovered from HM Revenue and Customs. The refund relates to Community Services income and arises from the implications of a Court of Appeal judgement which permits the recovery of VAT on certain income streams previously subject to a 3 year limitation cap which has now been removed. Further claims in respect of cultural and leisure activities are being worked up in conjunction with PwC, the Council's VAT advisers.

Central Support Services (+£0.050m; 0.2%)

The proportion of central support costs falling on the General Fund is £0.050m higher, despite the overall cost of these services being c£0.3m lower.

Capital Financing Costs (-£1.253m; 27.3%)

Loan charges are forecast to be c£1.25m below budget as a consequence of low interest rates and a lower debt level.

Council Tax (+£0.250m; 0.4%)

While attaining high collection levels during the recession will be challenging, I anticipate that overall income from Council Tax will be around £0.25m higher than assumed in setting the budget.

3. TRADING ACCOUNTS

The Council's two Statutory Trading Accounts of Building Maintenance and Roads are expected to generate additional surpluses of some £0.17m.

4. HOUSING REVENUE ACCOUNT

Net expenditure is currently projected to be very close to the planned level. Savings in staff costs are more or less matched by reduced revenue interest and lost rents from properties undergoing significant refurbishment work through the Housing Investment Programme.

5. FINANCIAL YEAR 2010/11

- 5.1 Members will recall in the 2009/10 – 2010/11 Budget Report submitted in February that the indicative budget for 2010/11, based on the best information at that time, suggested efficiency savings of around £7m (c2%) would be required. However, the report also warned of the potential impact on the Scottish Budget of the UK wide additional efficiency savings target of £5bn contained within the Chancellor's Pre-Budget Report of 24 November 2008 and concluded that the 2010/11 budget would therefore be even more challenging.

- 5.2 On 17 September 2009, the Finance Secretary John Swinney presented the Scottish Government's Draft Scottish Budget 2010/11, which included consideration of the impact of the additional efficiency savings which, in proportionate terms, effectively reduced the Scottish Budget by c£500m. The Finance Secretary announced Local Government's share of the cuts will be a reduction in revenue grant of £131m and £43m in capital grant. Individual grant figures for each Council will not be available until end October/early November. However, based on Falkirk Council taking its proportionate share of the reduction in revenue grant it is anticipated that around a further £4m in savings will be required. Consequently, the total revenue savings required to be found next year could be in the order of c£11m. Clearly, this level of savings will have a significant effect on the preparation of next year's budget which is now underway, and Members will be faced with difficult decisions on service priorities.
- 5.3 Further reports will be submitted as information becomes available, but it is safe to say we now face the most severe financial difficulties in decades. Members should also be aware these difficulties will not only be restricted to next year, as recent research by The Society of Local Authority Chief Executives and Directors of Finance, suggests likely future annual savings of c4% for the financial years 2011/12 – 2013/14 will be required in order to reduce the public sector deficit as a direct result of the current economic crisis.

6. CONCLUSION

After five months of the financial year, net expenditure is estimated to be some £3.1m above the level taken into account in setting the Budget in February 2009. The projected overspend on Social Work Services of £3.98m is, by far, the most significant factor. It is now even more essential that all Services review their spending plans to seek a corporate solution to the overspend which is having such a material adverse impact on the Council's reserves. Members are also being kept up to date with developments relating to equal pay claims and the potential financial impact on the Council. Spending on services to Council tenants within the HRA is projected to be in line with the planned level.

The deteriorating outlook for 2010/11 and beyond due to the forthcoming UK Spending Review is also outlined above and it is clear that the Council now faces considerable challenges in matching service delivery requirements with available resources.

7. RECOMMENDATIONS

Members are invited to:-

- (i) **note this latest projection of the amount of expenditure which is likely to be incurred in 2009/10**

- (ii) re-affirm that Directors should take appropriate action to bring spending into line with the approved budget
- (iii) note the details of the Draft Scottish Budget 2010/11 and its likely effect on the Council's finances as outlined in this report.

Director of Finance

Date : 1 October 2009

LIST OF BACKGROUND PAPERS

1. Financial Monitoring Statements 2009/10

Any person wishing to inspect the above background papers should telephone Falkirk (01324) and 506300 ask for Mr Jannetta.