ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy & Resources
DATE	30 September 2014
ACTING DIRECTOR	Ewan Sutherland
TITLE OF REPORT	Council General Fund Monitoring 2014/15
REPORT NUMBER:	CG/14/120
CHECKLIST RECEIVED	Yes

1. PURPOSE OF REPORT

The purpose of this report is to:-

i) inform Elected Members on the current financial position for the Council and the forecast outturn for financial year 2014/15, highlighting areas of risk and management action that have been identified by directors; and

ii) provide details of the capital spend on the Aquatics Centre (50m Pool) to be converted to share capital.

2. RECOMMENDATION(S)

It is recommended that the Committee:-

i) note the report;

ii) agree to the use of any uncommitted revenue surplus towards funding the Council's capital investment requirements as set out in the capital programme, including the strategic infrastructure plan; and

iii) agree the conversion of £8.5 million capital spend on the Aquatics Centre to share capital (see paragraphs 5.21-5.23).

3. FINANCIAL IMPLICATIONS

3.1 In relation to revenue, the early indications are that with expenditure and income for the period to the end of July 2014 being controlled and the delivery of savings options progressing positively the Council will generate an underspend against budget of £5 million.

3.2 Whilst assumptions have been made around the delivery of savings options there is a risk that changes during the year have a detrimental financial affect. However, at this early stage of the year, contingency funds remain uncommitted which provides assurance that the forecast outturn can be achieved should any such unanticipated financial pressure arise.

3.3 If expenditure can be maintained within budget throughout the year and contingencies remain unrequired an opportunity exists for the Council to deliver an increased contribution to the General Fund and this will be monitored on a monthly basis by the Corporate Management Team.

3.4 The recommended level of uncommitted General Fund revenue reserves is £11.3 million, as approved by the Committee in October 2012 and this will continue to be maintained.

3.5 In relation to capital, the projected funding for the General Fund capital programme comes from a range of sources, including Scottish Government capital grant, capital receipts, revenue contributions, usable capital reserves and borrowing.

3.6 The projected capital expenditure of £98.8 million and previous capital expenditure has an impact on the General Fund revenue budget, through the repayment of borrowing. Projected capital financing costs is currently in line with budget. This amounts to 6.75% of the overall net revenue budget.

4. OTHER IMPLICATIONS

4.1 Managing the Council's financial position in a stable and sustainable way means that its legal responsibilities can be met. It enables the Council to be confident in preparing for the future and planning ahead.

5. BACKGROUND/MAIN ISSUES

5.1 This is the first opportunity for the Committee to consider the overall financial position, with specific reference to the General Fund, for the financial year 2014/15. The Corporate Management Team received reports on financial performance in earlier months and is aware of the current forecast and the risks that exist.

5.2 This report considers the forecast outturn for the Council as a whole, building on information and analysis provided to the individual Service Committees during the current cycle of meetings.

5.3 The information in this report presents the actual financial figures to the end of July 2014 and the full year forecasts based thereon for the consideration of Elected Members.

5.4 Appendix A includes a summary of the overall Council projected position.

General Fund Revenue Position

5.5 In overall terms the statement at Appendix A shows the Council is managing expenditure within the overall budget and the forecast shows that by the year end initial indications are that a contribution to usable General Fund reserves will be possible. The value attached to this at present is £5 million which represents an underspend of approximately 1.3% of the net expenditure budget.

5.6 The most significant risks and matters arising from the figures that are presented include the following:

5.6.1 Corporate Governance (CG) shows an adverse full year forecast of £0.3 million due to a currently predicted overspend on Housing Benefits. This is a demand led service which makes it difficult to predict costs and whilst the majority of expenditure is recovered from the DWP there is a cost to the Council. This position is offset by favourable variances in other areas, particularly staff costs. Income is forecast to be above budget, this arising from recharges for support and shared services.

5.6.2 Enterprise, Planning and Infrastructure (EP&I) presents a favourable forecast of £1 million arising largely from staff costs which provide considerable savings through vacancy management arrangements and strong income generation from planning and building warrant application fees. The net operating costs catering, school transport and roads are also forecast to be lower than budget. Conversely, there is a cost pressure in relation to the achievement of savings in fleet services due to the progress in reducing the age of the vehicle fleet, which will take time to have an impact.

5.6.3 The key risk for EP&I is in relation to the timing of forecasts and the fact that there remains a degree of uncertainty in relation to key areas such as income for the design team based on the capital programme, property repairs and school catering where there may be an adverse impact from the introduction of free school meals in January 2015 if the funding from the Scottish Government, which will be calculated on a national average price per meal, does not fully fund the cost.

5.6.4 Housing and Environment (H&E) forecast that an under spend against budget of £0.9 million is achievable. This is largely due to savings from on-going staff vacancies, lower repairs and maintenance costs and from reduced use of the Furniture Purchase Scheme as furniture can be obtained free for the Scottish Welfare Fund.

5.6.5 H&E has key risks in relation to assumptions made around staffing levels, generation of fee income and levels of homeless presentations.

5.6.6 Education, Culture and Sport (EC&S) is forecast to keep expenditure within its budget and generate an overall saving of approximately £0.1 million. Specific savings around probationer teachers and vacancy management along with a number of centrally held education budgets have been offset by costs associated with out of authority placements which based on current commitment levels is in excess of the budget. There is potential for this overspend to reduce but at this stage it is prudent to include this in the forecast.

5.6.7 In addition to the volatility of out of authority placements, the key risks for EC&S are in relation to pupil rolls and associated teacher number where it has been assumed that any additional costs can be met from existing budgets and that cost pressures identified but not included in the budget can be met from existing resources.

5.6.7 Social Care & Wellbeing (SC&W) currently reports an adverse full year forecast budget position of £0.5 million which incorporates a number of significant over and underspends. There is particular cost pressures in the commissioning of services (£3.4 million), particularly in relation to children placed in residential schools outside the authority and in adults' needs services where there is an anticipated shortfall in savings to be achieved from service redesign. Conversely income forecasts are strong particularly through grants and contributions that are now expected (£1.4 million), whilst running cost including staff costs are predicted to show favourable variances across a number of areas (£1.5 million).

5.6.7 The key risks for SC&W are in relation to the purchasing of care, both the volatility of out of authority placements for children and the need for care of older people, whether delivered by internal or external services. The fluctuations in demand make this a difficult area to predict.

5.6.8 The Corporate budgets, which are made up of funding of Capital Financing Costs, the Joint Grampian Valuation Board, Council Expenses, Trading Account surpluses and funding set aside for contingencies, shows an underspend of £4.4 million. This reflects additional income from both the Car Parking and Property Letting trading accounts and the anticipated reduced use of corporate contingencies. The costs of borrowing (capital financing costs) are in line with budget at this time but will continue to be reviewed to take account of capital expenditure profiles.

5.7 Whilst assumptions have been made on the non use of contingencies, these remain uncommitted, which are in addition to the sums that are earmarked against the General Fund balance and provide a suitable degree of protection against unexpected expenditure being identified as part of the year end process.

5.8 The figures outlined reflect previously approved Priority Based Budget options which had previously been approved for the year and had been incorporated into the 5 year business plan in earlier financial years.

Procurement

5.9 Contained within the 2014/15 budget is a cost reduction of £1.5 million net through active contract management by the Head of Procurement in conjunction with all services. It was envisaged that these reductions would be "one off" cost reductions and would not be achieved in future financial years. However, the Head of Procurement has identified areas where savings can be achieved annually.

5.10 To date almost £600,000 of recurring savings have been achieved. This equates to a saving of nearly £3 million over the life of the 5 year business plan of the Council and exceeds the £1.5 million “one off” saving that was budgeted for. The Head of Procurement continues to seek further contract efficiencies and wherever possible ensure that these are recurring rather than “one off” type savings which will further improve the 5 year budget position and also the 2014/15 out-turn.

5.11 The links between Finance and Procurement have been strengthened to foster stronger financial management of procurement of budgets by budget holders across the Council with staff in both services working more closely together. This is important in that a robust process for identifying procurement savings and mapping these to budgets ensures that the necessary budget adjustment is made to reflect the procurement saving. This work continues to develop and the natural progression of this closer working is to integrate the procurement target into the financial monitoring report of the Council. Hence, the reporting of the procurement target is included within this report.

General Fund Capital Programme

5.12 The overall position of the General Fund capital programme for 2014/15 is reported at a high level to enable Elected Members to see the progress that is being made in the delivery of the programme.

5.13 In relation to funding the programme a range of options are available to the Council and many of these are used on an annual basis to ensure that the most effective way of funding capital investment is found both in-year and in planning for the future.

5.14 The total anticipated expenditure for the year as at the end of July 2014 is £96.8 million and this is broken down by Service in Appendix B, along with the anticipated funding arrangements.

5.15 The main reason for the significant variance from budget (which includes approved projects carried forward from 2013/14) is because a number of roads related and zero waste strategy projects are going to be re-profiled for commencement / delivery in the next financial year.

5.16 In relation to funding this expenditure the Scottish Government general capital grant of £23 million will be the first funding stream to be utilised.

5.17 The other capital financing options that the Council will consider will be contributions from the revenue budget, use of capital receipts and use of the usable capital reserves that exist in the capital fund and capital grants unapplied account.

5.18 Borrowing will also be considered and, as borrowing has a long term revenue cost, it is the strategy of the Council to reduce the level of debt it carries to ensure a sustainable revenue position for the future.

Management Actions

5.19 As the financial year progresses it is imperative that Services continue to deliver the Priority Based Budgeting savings options that are included within Service budgets. Early indications are that there are two significant risk areas in terms of savings options not being delivered (namely Fleet Services and Social Care & Wellbeing) but that these are being managed overall through the careful management of other budget areas.

5.20 Services should be looking ahead with planning and implementation activity being in place to continue to provide robust financial forecasts, to progress operational changes and savings included in the 5 year business place and to mitigate risks as far as possible.

5.21 Further progress reports will be provided to the Committee throughout the year on both the financial position, the risks that exist of the council and the action being taken by management.

Reserves Position

5.22 The Council has a reserves strategy (approved by Finance and Resources Committee in October 2012) that means that £11.3 million of uncommitted reserves on the General Fund should be maintained, with the express intention of ensuring that the Council can deal with unexpected and unplanned expenditure should the need arise.

5.23 The impact on reserves of the current full year forecasts for expenditure and income is that additional resources can be secured to contribute towards the funding of the capital investment requirements of the Council, as incorporated in the 5 year capital programme and the Strategic Infrastructure Plan.

Capital Cost of the Aquatics Centre (50m Pool)

5.24 At its meeting of 6th October 2011 Council considered a progress report on the 50m Pool which confirmed that funding up to £8 million would be provided ASV towards the costs of the project with this funding to be converted to share capital on completion of the project. At this stage ASV were to contribute £1 million of funding to the project.

5.25 Subsequently, a VAT issue arose for ASV and to mitigate the impact of this it was agreed that a capital conversion would take place whereby ASV would not draw down £1 million of revenue funding from the partners i.e. £0.5 million each from the Council and the University of Aberdeen but that that funding would be additional capital funding from each partner. This in effect reduced the Council's revenue funding during 2012/13 but increased its total capital contribution to the 50m Pool to £8.5 million.

5.26 As the project is now complete ASV are seeking to complete the conversion of funding to share capital. To complete this process it is necessary to have assurance that the Council has the appropriate formal approvals in place for the conversion of the revised amount of £8.5 million to share capital.

6. IMPACT

6.1. As a recognised top priority the Council must take the necessary measures to balance its budget. Therefore, Services are expected to work within a financial constraint as defined by their annual budgets.

6.2. Each Director reports on a regular basis to their service committee, providing the opportunity to consider the financial position and impact in more detail.

7. MANAGEMENT OF RISK

7.1 Every organisation has to manage the risks inherent in the operation of large and complex budgets. These risks are minimised by the regular review of financial information by services and corporately by Elected Members. This report is part of that framework and has been produced to provide an overview of the current operating position.

7.2 The risks that remain in relation to the year-end financial position and closure of the accounts arise due to the potential for unexpected matters to emerge through the process or where the external auditor identifies material issues during their work.

8. BACKGROUND PAPERS

8.1 Financial ledger data extracted for the period and service committee reports on financial monitoring

9. REPORT AUTHOR DETAILS

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APPENDIX A

ABERDEEN CITY COUNCIL
2014/15

General Fund Revenue Position
As at 31 July 2014

As at end of July 2014		Year to Date			Forecast to Year End		
Accounting Period 4	Full Year Revised Budget £'000	Revised Budget £'000	Actual Expenditure £'000	Variance Amount £'000	Forecast Outturn £'000	Variance Amount £'000	Variance Percent %
Services							
Office of Chief Executive	943	309	300	(9)	879	(64)	(6.79%)
Corporate Governance	28,965	10,027	9,022	(1,005)	29,268	303	1.05%
Enterprise Planning and Infrastructure	40,080	15,792	15,819	27	39,052	(1,028)	(2.56%)
Housing and Environment	36,469	12,156	11,845	(311)	35,596	(873)	(2.39%)
Education Culture and Sport	171,362	61,525	57,032	(4,493)	171,214	(148)	(0.09%)
Social Care and Wellbeing	123,288	41,629	41,410	(219)	123,912	624	0.51%
Total Service Budgets	**401,107**	**141,438**	**135,428**	**(6,010)**	**399,921**	**(1,186)**	**(0.30%)**
Total Corporate Budgets	**28,050**	**(790)**	**(260)**	**530**	**23,688**	**(4,362)**	**(15.55%)**
Total Net Expenditure	**429,157**	**140,648**	**135,168**	**(5,480)**	**423,609**	**(5,548)**	**(1.29%)**
Funding:							
Government Support-							
General Revenue Grant & Non-Domestic Rates	(328,813)	(109,404)	(112,481)	(3,077)	(328,813)	0	0.00%
Local Taxation-							
Council Tax & Community Charge Arrears	(100,344)	(33,448)	(38,940)	(5,492)	(100,354)	(10)	(0.01%)
Total Funding	**(429,157)**	**(142,852)**	**(151,421)**	**(8,569)**	**(429,167)**	**(10)**	**(0.00%)**
Net Impact on General Fund (Surplus)/Deficit	**0**	**(2,204)**	**(16,253)**	**(14,049)**	**(5,558)**	**(5,558)**	
Transfer to / (from) Earmarked GF Reserve	0	0	0	0	5,558	5,558	
Transfer to / (from) Uncommitted GF Reserve	0	0	0	0	0	0	
Net Impact on Budget (Surplus)/Deficit	**0**	**(2,204)**	**(16,253)**	**(14,049)**	**0**	**0**	

Assumptions:

Year to date - In the Service and Corporate Budgets accruals have been applied as at the end of July for material items and significant areas of service; and
- Council Tax income is generally collected over the first 10 months of the year therefore is shown to be ahead of budget as at the end of July.

Forecast Outturn - Known commitments and expenditure plans have been taken into account in relation to the forecasts; and
- Accounting staff have undertaken regular meetings with budget holder and have sought to confirm as far as possible the planned expenditure within Services, the outcome of these discussions are included in the forecast outturn.

APPENDIX B

ABERDEEN CITY COUNCIL
2014/15

General Fund Capital Programme
As at 31 July 2014

As at end of July 2014					
Accounting Period 4	**Approved Budget £'000**	**Service Determined Minimum Required £'000**	**Actual Expenditure £'000**	**Variance Amount £'000**	**Percent Spend %**
Services					
Corporate Governance	2,162	1,868	54	(1,814)	2.9%
Education Culture and Sport	13,976	12,467	699	(11,768)	5.6%
Enterprise Planning and Infrastructure	80,073	73,178	10,890	(62,288)	14.9%
Housing and Environment	13,421	7,618	1,021	(6,597)	13.4%
Social Care and Wellbeing	2,307	1,657	6	(1,651)	0.3%
Total Service Budgets	**111,939**	**96,788**	**12,669**	**(84,119)**	**13.1%**
Funding:					
General Capital Grant	(23,088)	(23,088)	(7,696)	15,392	33.3%
Specific Capital Grant	(13,268)	(9,160)	(2,132)	7,028	23.3%
Other Capital Financing	(75,583)	(64,540)	(2,840)	61,700	4.4%
Total Funding	**(111,939)**	**(96,788)**	**(12,669)**	**84,119**	**13.1%**
Slippage Required/ (Underspend)	**0**	**0**	**0**	**0**	

Assumptions:

Actual Expenditure - Expenditure has been shown on a cash basis, i.e. transactions completed prior to the end of July are reflected in the values shown; and

- The total value of grant received has been recorded and this is balanced by other capital financing, which will be finalised at the year end.

Service Determined Minimum - Known commitments and expenditure plans have been taken into account in relation to the Service Determined Minimum values;

- Accounting staff have undertaken regular meetings with budget holders and have sought to confirm as far as possible the planned expenditure within Services, the outcome of these discussions are included in the forecast outturn; and
- The Corporate Asset Group reviews the values on a regular basis.