

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy & Resources
DATE	4 December 2014
ACTING DIRECTOR	Ewan Sutherland
TITLE OF REPORT	Council General Fund Monitoring 2014/15
REPORT NUMBER:	CG/14/157
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.

2. RECOMMENDATION(S)

It is recommended that the Committee:-

- i) notes the report;
- ii) notes the prior agreement 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;
- iii) approves that a sum of £2.93m be earmarked from the 2014/15 underspend for the restructuring of children's services; and
- iv) approves the Council's engagement with the external advisors appointed by the Hub North partnering authorities to provide legal, financial and technical support for the new South of the City Academy project, with the cost of these advisors to a maximum of £200,000 being funded by a Scottish Government grant.

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 September 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 £95 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 second 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 receive monthly reports on financial performance 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 September 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 underspend forecast remains the same as the last report prepared for the Committee and it is worth reminding Elected Members of 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 a particular cost pressure 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.

General Fund Capital Programme

- 5.7 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.
- 5.8 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.
- 5.9 The total anticipated expenditure for the year as at the end of September 2014 is £95 million and this is broken down by Service in Appendix B, along with the anticipated funding arrangements.
- 5.10 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.
- 5.11 In relation to funding this expenditure the Scottish Government general capital grant of £23 million will be the first funding stream to be utilised.
- 5.12 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.
- 5.13 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.
- 5.14 With regard the project to deliver the South of the City Academy, one of the Scottish Government's funding conditions is the appointment of external advisors to support the legal, financial and technical aspects of the contract. The cost of these advisors will be supported by a grant from the Scottish Government to a maximum of £200,000. The partnering authorities in the North Hub area issued joint tenders for these supports and have appointed the following advisors for elements of the project:

Financial – Caledonian Economics

Legal – CMS

Technical - AECOM

The specification used by other partnering authorities has seen the cost of these advisors being approximately £100,000 and Committee approval is required before officers can engage the appointed advisors.

Management Actions

- 5.15 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.
- 5.16 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 plan and to mitigate risks as far as possible.
- 5.17 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

- 5.18 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.
- 5.19 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.
- 5.20 Aberdeen City Council is currently transforming children's social work services in Aberdeen under the Reclaiming Social Work Model.
- 5.21 There are additional costs associated with the implementation of this model and therefore it is recommended that a sum of £2.93 million be earmarked from the 2014/15 underspend to cover these costs in the early years until the new structure is embedded and predicted savings are released.

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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**ABERDEEN CITY COUNCIL
2014/15**

**General Fund Revenue Position
As at 30 September 2014**

As at end of September 2014	Year to Date			Forecast to Year End			
Accounting Period 6	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	464	427	(37)	842	(101)	(10.71%)
Corporate Governance	29,065	15,121	14,160	(961)	29,486	421	1.45%
Enterprise Planning and Infrastructure	40,735	22,396	22,344	(52)	39,608	(1,127)	(2.77%)
Housing and Environment	36,458	18,229	16,686	(1,543)	35,739	(719)	(1.97%)
Education Culture and Sport	171,319	87,964	83,176	(4,788)	171,222	(97)	(0.06%)
Social Care and Wellbeing	123,346	62,051	61,791	(260)	123,816	470	0.38%
Total Service Budgets	401,866	206,225	198,584	(7,641)	400,713	(1,153)	(0.29%)
Miscellaneous Services	44,794	8,038	3,702	(4,336)	44,945	151	0.34%
Council Expenses	2,137	806	616	(190)	2,133	(4)	(0.19%)
Joint Boards	1,512	756	775	19	1,555	43	2.84%
Contingencies	2,954	1,321	0	(1,321)	2,954	0	0.00%
Trading Surpluses	(13,619)	(6,811)	(8,269)	(1,458)	(14,786)	(1,167)	8.57%
Use of Reserves & Balances	(10,487)	(5,243)	0	5,243	(10,487)	0	0.00%
Other	0	0	0	0	(3,500)	(3,500)	0.00%
Total Corporate Budgets	27,291	(1,133)	(3,176)	(2,043)	22,814	(4,477)	(16.40%)
Total Net Expenditure	429,157	205,092	195,408	(9,684)	423,527	(5,630)	(1.31%)
Funding:							
<u>Government Support-</u>							
General Revenue Grant & Non-Domestic Rates	(328,813)	(137,005)	(137,476)	(471)	(328,813)	0	0.00%
<u>Local Taxation-</u>							
Council Tax & Community Charge Arrears	(100,344)	(41,810)	(48,940)	(7,130)	(100,354)	(10)	(0.01%)
Total Funding	(429,157)	(178,815)	(186,416)	(7,601)	(429,167)	(10)	(0.00%)
Net Impact on General Fund (Surplus)/Deficit	0	26,277	8,992	(17,285)	(5,640)	(5,640)	
Transfer to / (from) Earmarked GF Reserve	0	0	0	0	5,640	5,640	
Transfer to / (from) Uncommitted GF Reserve	0	0	0	0	0	0	
Net Impact on Budget (Surplus)/Deficit	0	26,277	8,992	(17,285)	0	0	

Assumptions:

- Year to date**
- In the Service and Corporate Budgets accruals have been applied as at the end of September 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 September.

- 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.

**ABERDEEN CITY COUNCIL
2014/15**

**General Fund Capital Programme
As at 30 September 2014**

As at end of September 2014					
Accounting Period 6	Approved Budget £'000	Service Determined Minimum Required £'000	Actual Expenditure £'000	Variance Amount £'000	Percent Spend %
Services					
Corporate Governance	2,162	1,867	408	(1,459)	21.8%
Education Culture and Sport	13,976	12,745	1,614	(11,131)	12.7%
Enterprise Planning and Infrastructure	80,073	71,434	23,808	(47,626)	33.3%
Housing and Environment	13,435	7,632	1,429	(6,203)	18.7%
Social Care and Wellbeing	2,307	1,657	72	(1,585)	4.4%
Total Service Budgets	111,953	95,335	27,332	(68,003)	28.7%
Funding:					
General Capital Grant	(23,088)	(23,088)	(7,696)	15,392	33.3%
Specific Capital Grant	(13,268)	(6,354)	(2,132)	4,222	33.6%
Other Capital Financing	(75,597)	(65,893)	(17,504)	48,389	26.6%
Total Funding	(111,953)	(95,335)	(27,332)	68,003	28.7%
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 September 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.