

## ABERDEEN CITY COUNCIL

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**COMMITTEE:** FINANCE AND RESOURCES  
**DATE:** 28 JANUARY 2010  
**REPORT BY:** CITY CHAMBERLAIN  
**TITLE OF REPORT:** REVENUE BUDGET 2009/10 MONITORING  
**REPORT NUMBER:** CG/10/023

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### 1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to inform Members on the updated projected outturn and current financial position for the Council for financial year 2009/10 and to advise on areas of risk and management action that have been highlighted by corporate directors.

### 2. RECOMMENDATION(S)

It is recommended that the Committee:

1. consider the contents of this report and the implications of the projected figures on the general fund balance;
2. note and instruct Directors to continue to take cost reduction opportunities during the remainder of the year in order to move the estimated position back in line with the approved budget;
3. approve the earmarking of £7.6 million from the General Fund balance for the costs associated with the staff reduction exercise.

### 3. FINANCIAL IMPLICATIONS

- 3.1 The General Fund, uncommitted working balances as at 1 April 2009 were £8.784 million.
- 3.2 Based on the information outlined in this report the uncommitted working balances as at 31 March 2010 would currently be increased by £2.445 million before exceptional items, and represents a surplus on the general fund budget.

- 3.3 An exceptional item to the value of £5.997 million arises as a result of the payment of outstanding claims by Her Majesty's Revenue & Customs (HMRC). The overall financial position allows the Council to allocate this whole sum towards the General Fund reserves and balances and in doing so is projected to increase the uncommitted balance as at 31 March 2010 to £17.226 million, representing 3.9% of the net 2009/10 revenue budget
- 3.4 Against this the Council must consider the costs it will incur to reduce the workforce. Sections 6.15 – 6.26 outlines the impact that current consent to borrow could have on the Council and the impact of having this sum available will enable the Council to support the voluntary reduction in the workforce. In addition to this it would be considered prudent to commit a further £4 million from the General Fund reserves and balances to enable the process to be completed.
- 3.5 Setting aside £4 million brings the projected uncommitted balances at the year end down to £13.226 million, 3% of the net 2009/10 revenue budget.

#### **4. SERVICE & COMMUNITY IMPACT**

- 4.1. As a recognised top priority the Council must take the necessary measures to balance its budget. Therefore, Services work within a financial constraint and every effort is being focused on delivering services more efficiently and effectively.
- 4.2. Opportunities to balance the budget will be identified by each Director and reported as necessary to the relevant service committee.

#### **5. OTHER IMPLICATIONS**

- 5.1. 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 Members. This report is part of that framework and has been produced to provide an overview of the current operating position.
- 5.2. The Council is currently reviewing the number of its employees through a voluntary severance / early retirement scheme and during the year the costs associated with this will be met from the earmarked sums committed against the General Fund balance.

#### **6. REPORT**

- 6.1. This report considers the updated projected outturn for the Council as a whole and this builds from the individual Service Committee reports that have been considered during the current cycle of meetings.

- 6.2. Information within this report provides a high level expenditure projection for the consideration of Members and presents actual financial figures to the end of November 2009 and the projections based thereon. Appendix A includes a summary of the overall Council projected position.

### **Financial Position**

- 6.4 In overall terms the statement at Appendix A shows a favourable net position, before exceptional items, of £2.445 million against the budget. This is a favourable movement of £4.920 million on the position last reported to the Committee.
- 6.5 The detail behind the favourable movement reveals improving financial projections from within Services, and particular attention should be given to the Social Care and Wellbeing budget, where projections in the last report of almost £6.5 million over budget have been reduced to £2.1 million. This follows specific and numerous one-off savings opportunities being identified by the Service and which are intended to have an impact of saving up to £3.1 million in the last quarter of the year.
- 6.6 The projections overall would be more favourable had it not been for the winter conditions in recent weeks, the additional costs of which have so far been calculated at approximately £0.5 million. This is a value that is beyond the budget provision and should there be further snow / ice in the remainder of the financial year then the Council can expect to incur further costs. Furthermore there is a clear need for road repair and maintenance to be undertaken in the subsequent weeks, as potholes and surface damage are revealed and assessed. A further provision of £0.5 million has been built into the projections to take account of unknown but anticipated and potential road and winter maintenance costs. These projections have been included under Enterprise Planning and Infrastructure on Appendix A.
- 6.7 Despite the improving position overall the pressure on the operational budgets remains clearly visible from the figures, with underlying costs in social care, and reductions in income streams relating to planning and building application fees and sports centre activities. The Service forecast out-turns are reflecting these pressures in the current economic climate and it must be recognised that short-term and one-off cost reductions do not address these underlying trends and provide sustainable solutions for the future. This must continue to be worked upon.

- 6.8 The projected outturn figures reflect progress on achieving approved budget savings of £27 million, which were incorporated into the budget.
- 6.9 Furthermore it has been assumed that the corporate contingencies, set aside in the budget, will be fully utilised in the year. However there remains the possibility that they will not be needed and therefore the potential for further improvement to the projected outturn figures. The value is not known now but could amount to over £1 million at the year end depending on the circumstances during the last quarter.

### **Exceptional items**

- 6.10 In previous reports the Committee has been informed about an exceptional item that is having a favourable and substantial impact upon the Council finances. Members were advised that the income that the Council had received was likely to reflect the majority of claims the Council could expect to be settled and as such there was no expectation of any further substantial income. A net income of £3.7 million had therefore been predicted for the year.
- 6.11 The claims referred to are in relation to the reclamation of VAT resulting from recent case law that covered the areas of culture and leisure activities.
- 6.12 Unexpectedly HMRC have settled a further claim referring to leisure activities from 1990-1994, and resulting in a further net £2.297 million being received by the Council. The total net value, including interest and after the deduction of fees, now received is £5.997 million.
- 6.13 Having sought further advice on the limited number of claims still to be assessed it is now thought unlikely that there will be any high value receipts, although some smaller value claims may be paid in due course.
- 6.14 While this provides a very positive impact on the Council's financial position the exceptional nature of this means that the Council cannot rely upon this in any other year. Therefore it remains important that the Council works continually to address the financial challenges that it faces in service provision and delivery.
- 6.15 As a direct result of the overall impact of these favourable projections it means that the General Fund balance will benefit to the value of £8.442 million (net revenue budget surplus £2.445 million plus exceptional item £5.997 million).

### **Management Actions**

- 6.16 Improvements in the projected outturn figures continue to support the beneficial impact that can be derived through specific and concerted management action, none of which is easy but continues to be necessary.

6.17 The following actions are being undertaken across and within services to currently to address the unfavourable operational budget position that remains:

- Vacancy Management - the filling of all vacant posts is being scrutinised and authorised by the Corporate Management Team;
- Reviewing and limiting payments for overtime;
- Reviewing use of agency staff;
- Minimising discretionary expenditure on supplies and services;
- Tightening spend controls across all purchasing decisions;
- The Director for Social Care and Wellbeing will authorise and agree with the Head of Service any admissions for older people, learning disability and children;
- No further increase in care packages this financial year;
- There will be no recommendations for external placements of children and firm gate keeping arrangements maintained;
- Travel outside the City will be approved on an exceptional basis only;
- 2010/11 budget savings proposals to be brought forward to 2009/10 wherever possible;
- The Head of Procurement is identifying further opportunities for procurement savings that can be realised in the current year.

#### **Consent to Borrow – Equal Pay**

6.18 In November 2009, the Scottish Government introduced a scheme for Local Authorities in Scotland whereby they can seek consent to borrow for one-off equal pay costs. In response to this Aberdeen City Council has made an application to the scheme. The application is still being considered and a response is due in the near future, subject to Ministerial approval. The impact of the outcome of this application will be included for Members in a future report.

6.19 On the basis of a similar scheme for Aberdeen City Council last year there is currently in place consent to borrow for some specific equal pay costs (cleaners, caterers and carers) in financial year 2009/10. In relation to these costs the Council has already incurred £4.2 million of expenditure to which borrowing can apply. After taking account of the cost of borrowing this will enable the release of £3.6 million into the General Fund – over and above any of the financial projections already mentioned in this report.

6.20 It is anticipated that this release of £3.6 million can therefore be made available to support the funding of the one-off exit costs for the staff reduction exercise.

- 6.21 Appendix B shows a summary of the Consent to Borrow currently approved and the value applied for. Members will note the costs that this course of action incurs, and the fact these are spread over a period of 10 years. It is not an option of first choice but provides an alternative tool where financial commitments are significant and all funding options are important.
- 6.22 The aim is for the Council to have sufficient resources to enable it to pay for all the costs it is expected to meet from its own reserves and balances. However to have Consent to Borrow for specific one-off costs in place will provide an opportunity for the Council to assess the alternative courses of action available to it if these prove necessary.
- 6.23 Further approval, as outlined in paragraph 6.17, could offer the option of further borrowing to increase the General Fund reserve and balances, and in so doing provide further opportunity to earmark sums for specific one-off costs.
- 6.24 At present, and in the absence of any further notification from the Scottish Government, it is considered prudent, in light of the positive financial projections, that the Council approve the earmarking from the General Fund reserves and balances a further £4 million to support the workforce reduction exercise, plus the sum already able to be released through consent to borrow arrangements (£3.6 million). This will mean that there is an earmarked sum of £7.6 million for staff exit costs.
- 6.25 As applications for voluntary severance / early retirement are approved this sum will have to be reviewed and is therefore subject to revision in the future.

### **Summary Position**

- 6.26 The contents of this report must be considered in the context of known and unknown factors and the level of risk that the Council considers there is in delivering a balanced budget this financial year.
- 6.27 At this time there remain underlying costs pressures and short term savings that still have to deliver the desired level of cost reduction. In addition there are uncertainties particularly in relation to the weather and the impact that the recent weather is having on the planned road maintenance / repair schedules.
- 6.28 Unexpected income, from HMRC, provides a degree of comfort for the Council in order to ensure reserves and balances are improved for the year end. As previously mentioned recognition of the one-off nature of this income means that there is no opportunity for such large sums of money to be included in the Council's financial planning for the future.

6.29 The risks remain and underlying cost pressures need to continue to receive attention in order to establish the sustainable baseline upon which service delivery can be achieved. An example of the ongoing work in this area includes the voluntary staff reduction exercise currently underway across the Council.

6.30 In order to summarise the figures presented in the body of this report the summarise Net Revenue position can be shown as follows

	£ million	£ million
Net Revenue Budget (Surplus) / Deficit (projected)	(2.445)	
Exceptional Items	<u>(5.997)</u>	
<b>Total Movement on General Fund Balance (Increase) / Decrease</b>		<b><u>(8.442)</u></b>

This takes account of the additional winter maintenance costs already incurred and also makes provision for further costs that are as yet unknown in the area of winter / roads maintenance (See 6.6)

The summary position also assumes the full use of council contingencies however this does offer an opportunity for a further increase in the Surplus should they remain unused at the year end (See 6.9)

6.31 The summary position in relation to the General Fund reserves and balances is as follows:

	£ million	£ million
Uncommitted General Fund Working Balance -1 April 2009	(8.784)	
Movement on General Fund Balance (See 6.30)	<u>(8.442)</u>	
<b>Revised Uncommitted General Fund Working Balance</b>		<b>(17.226)</b>
Release of Equal Pay provisions through Consent to Borrow arrangements already in place (See 6.19)	(3.600)	
Recommended earmarking of General Fund Balance to support the Staff Reduction Exercise (See 6.24)	7.600	<u>4.000</u>
<b>Projected Uncommitted General Fund Working Balance – 31 March 2010</b>		<b><u>(13.226)</u></b>

## 7. AUTHORISED SIGNATURE

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## **9. BACKGROUND PAPERS**

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