

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy & Resources
DATE	15 September 2015
INTERIM DIRECTOR	Angela Scott
TITLE OF REPORT	Council General Fund Monitoring 2015/16
REPORT NUMBER	CG/15/115
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

This report provides an opportunity to consider the current financial position for the Council and the forecast outturn for the financial year 2015/16, highlighting assumptions made, areas of risk identified and management action to mitigate these risks.

2. RECOMMENDATION(S)

It is recommended that the Committee:

- i) note the financial position contained within this report.

3. FINANCIAL IMPLICATIONS

3.1 Revenue

- 3.1.1 The financial position as at the end of July 2015 can be seen in Appendix A.
- 3.1.2 The early indications are that an underspend of £1.7 million against budget is achievable.
- 3.1.3 Against a background of absorbing cost pressures, a tightening of the financial position of the council is to be expected and this is demonstrated by the current forecast surplus which is less than that seen in previous years.
- 3.1.4 In arriving at the forecast outturn, a number of assumptions have been made based on currently available data. In addition, a number of key areas have been identified as requiring further in depth analysis by the Service and Finance to understand and assess the impact of demand changes on forecast outturns.
- 3.1.5 Appendix B provides details of these assumptions and areas of risk.

- 3.1.6 The council has a number of earmarked reserves for specific projects. It is currently predicted that £22.8 million of these will be used during 2015/16.
- 3.1.7 Included within earmarked reserves is the Financial Risk Fund of £5.5 million, as agreed during the budget process to provide financial resilience against growing cost pressures. Whilst all mitigating actions will be taken to control expenditure and maximise income, it may be necessary to utilise this reserve to ensure the revenue budget remains in at least a balanced position.

3.2 Capital

- 3.2.1 The financial position as at the end of July 2015 can be seen in Appendix C.
- 3.2.2 As the majority of capital projects span more than one financial year, the focus when considering the position of the capital programme takes account of the whole life of projects rather than just the in year position. The exception to this is the rolling programmes which are shown separately in the appendix.
- 3.2.3 Funding comes from a number of sources, including the Scottish Government General Capital Grant, other third party grants and contributions, capital receipts, revenue contributions, usable capital reserves and borrowing. These are managed each year to ensure capital investment is funded in the most effective way, both in year and in planning for the future.
- 3.2.3 At this early stage there are no indications of any major variances in the programme.

3.3 Reserves

- 3.3.1 The recommended level of uncommitted general fund revenue reserves of £11.3 million, as approved by committee in October 2012, will continue to be maintained. This ensures the Council can deal with unexpected and unplanned expenditure should it arise.
- 3.3.2 The Council sets aside funds for specific projects and for specific purposes. These are commonly referred to as “earmarked reserves” and fall into specific categories – financial risks; specific contingent risks; unspent grant income; specific projects; and the Devolved Education Management scheme.
- 3.3.3 Earmarked reserves include the investment strategy and it is recommended that any uncommitted revenue surplus be set aside for this purpose.

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 2015/16.
- 5.2 Specific service reports are presented to the relevant service committee's and can be referred to for further detailed information.
- 5.3 In addition, the Common Good position is presented to the committee whilst the Housing Revenue Account is considered by the Communities, Housing and Infrastructure committee.
- 5.4 The financial position, assumptions, risks and management actions are detailed in Appendices A, B and C to this report.

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.

8. BACKGROUND PAPERS

Financial Ledger Data and Service Monitoring Reports;
Redetermination letters received from the Scottish Government;

9. REPORT AUTHOR DETAILS

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Aberdeen City Council							
General Fund Financial Reporting Summary 2015/16							
As at end of July 2015	Year to Date			Forecast to Year End			
	Revised Budget £'000	Actual Expenditure £'000	Variance Amount £'000	Full Year Revised Budget £'000	Forecast Outturn £'000	Variance Amount £'000	Variance Percent % £'000
Accounting Period 4							
Services							
Office of Chief Executive	1,130	1,168	38	3,210	3,284	74	2.31%
Corporate Governance	9,573	8,950	(623)	27,636	26,531	(1,105)	(4.00%)
Communities, Housing & Infrastructure	28,863	28,761	(102)	81,399	81,399	0	0.00%
Education & Children's Services	76,831	73,278	(3,553)	212,647	212,246	(401)	(0.19%)
Adult Social Care	29,405	29,034	(371)	88,167	88,206	39	0.04%
Total Service Budgets	145,802	141,191	(4,611)	413,059	411,666	(1,393)	(1.84%)
Total Corporate Budgets	(449)	932	1,381	29,977	29,676	(301)	11.04%
Total Net Expenditure	145,353	142,123	(3,230)	443,036	441,342	(1,694)	9.20%
Funding:							
<u>Government Support:-</u>							
Revenue Support Grant & Non Domestic Rates	(113,071)	(228,087)	(115,016)	(339,213)	(339,213)	0	0.00%
<u>Local Taxation:-</u>							
Council Tax & Community Charge Arrears	(34,608)	0	34,608	(103,823)	(103,827)	(4)	0.00%
Total Funding	(147,679)	(228,087)	(80,408)	(443,036)	(443,040)	(4)	0.00%
Net Impact on General Fund (Surplus)/Deficit	(2,326)	(85,964)	(83,638)	0	(1,698)	(1,698)	9.21%
Transfer from GF Earmarked Reserves (Used)	7,590	788	(6,802)	22,776	22,776	0	0.00%
Transfer to GF Earmarked Reserves (Added)	0	0	0	0	(1,698)	(1,698)	0.00%
Transfer (to)/from GF Uncommitted Reserves	0	0	0	0	0	0	0.00%
Net Impact on General Fund	5,264	(85,176)	(90,440)	22,776	21,078	(1,698)	9.21%

ASSUMPTIONS & RISKS			
Service	Budget Description	Details	Mitigation/Action Required
Corporate Governance	Housing Benefits	This is a demand led service which is largely funded by the DWP and Scottish Government (SG). The main area of risk for this budget is Discretionary Housing Payments (DHP) which is experiencing a high level of demand but with only some elements of the scheme likely to be fully funded by DWP/SG monies. At this stage it has been assumed that spend will be fully offset by income received. There is a risk this may not be the case.	Actively manage the award of those elements of the scheme for which external funding is unlikely to be received. Contact SG to make the case for additional DHP funding. Make use of the £2m sum earmarked for Welfare Reform
Communities, Housing & Infrastructure (CH&I)	Housing Support/Access	It has been assumed that an overall underspend will be seen in this area as a result of additional income from private sector leasing and lower spend on staffing and the purchase of furniture.	Continue to monitor progress against budget to ensure the assumed level of underspend is achievable.
	Fleet	In order to make required improvements, the service is currently employing a number of agency staff/consultants. In addition, previous savings built into the budget are unlikely to be achieved. Therefore, an overspend position is predicted which has the potential to increase further. Whilst investment in new fleet will start to bring costs down the full impact of this will take some time to flow through.	Actively manage staffing levels to ensure there is a balance between what is affordable and what is necessary to improve the service as required by the Traffic Commissioner.
	Waste	A number of identified cost pressures were absorbed into the 2015/16 budget. At this stage it has been assumed that the service will come in on budget overall largely on the basis that a budgeted CFCR contribution will not be made. However, there is a risk that cost pressures will materialise which cannot be offset by underspends in other areas of the service.	Further detailed work is ongoing to assess the impact of absorbing cost pressures to provide greater clarity on which areas of the waste budget can be controlled such to reduce the risk of overspend whilst also understanding the impact this may have on the provision of the service.

	Roads Operational	In previous years this service has experienced considerable underspends largely due to reduced staff costs and additional late funding from NESTRANS for specific projects to utilise their available funding. Underspends in staffing has been assumed in 2015/16 although recruitment is ongoing. Additional funding from NESTRANS has not been assumed as they are currently moving away from annualised budgets and will have more scope to carry forward funding.	Continue to monitor progress against budget to ensure the assumed level of underspend is achievable.
	Economic Development	<p>At these still early stages of the Hydrogen Bus project it has been assumed that the project will be on budget. However, there is a risk that spend will not match income.</p> <p>The council has a Euro bank account which is used to receive funding and make payments in Euro's for EU projects falling within the remit of Economic Development. For accounting purposes the account must be restated to sterling each year. As with any foreign currency transaction there will be gains and losses which will result in a charge or credit to the service which is not budgeted for.</p>	<p>Further work is required on a review of recoverable costs which will be reported on in future months.</p> <p>The balance on the account should be kept to a minimum to reduce the level of gains and losses. Thus, payments where possible for EU projects should be made from this account.</p>
	Planning Income	It is assumed that planning income will achieve the increased 2015/16 budgeted level. Income for larger projects is still being received although it is unclear how sustainable this is in the current economic climate. Whilst there is a risk that income levels may not be achieved it is equally likely that income above that budgeted could materialise.	Continue to monitor economic activity across the city and the impact this could have on the achievement of planning income.

	Bus Lane Enforcement	Income and associated spend has not been included in the forecast actual on the basis that the surplus is required by statute to be earmarked for the Local Transport Strategy.	None required directly although there is a need to monitor the performance of the service.
Education & Children's Services	DEM	The scheme enables establishments to utilise current year underspends in future years with these amounts being earmarked. It has been assumed these budgets will be required in full on the basis that any underspend on devolved budgets will result in a change to the level of earmarked sums.	None required directly although there is a need to monitor budgets to ensure overspends do not occur and that underspends earmarked are kept within the limits of the scheme.
	Out of Authority Placements	The level of commitments on the Out Of Authority Placements budget will vary depending upon a number of factors, including judgements by the Children's Panels or the Additional Support Needs Tribunal. This estimate is likely to fluctuate during the year. Forecasts include assumptions on the period of placements with an overspend predicted based on current commitments. There is a risk this may worsen due to increasing care packages costs when new or alternative placements are arranged and/or additional packages are put in place.	Continued monitoring of such placements is essential to control costs going forward. This should include close working with the Children's Panel and Additional Support Needs Tribunal to ensure all options are explored prior to the use of this form of placement.
	Energy	An underspend against budget has been assumed based on similar weather conditions to last year being experienced in the second half of the year, whilst also taking account of known contractual uplifts. There is a risk that a more severe winter than last year could increase heating costs and eradicate this predicted underspend.	Whilst nothing can be done about weather conditions, usage and the associated costs must be closely monitored ensure data used and any financial implications are taken account of.

Adult Social Care	Commissioned Services	This needs led budget presents a significant risk to the council with major fluctuations in commitment levels being experienced due to demand pressures and data recording issues. With a 1% increase in adults care packages costing approximately £740k, the pressure on this budget could easily increase.	Whilst it is difficult to predict future demands with certainty, it is imperative that close monitoring of this budget is undertaken to control costs wherever possible. A working group is in place to look at improving data recording which will in turn enhance forecasting in this area.
	Client Contributions	This income budget is dependant on the financial assessment of clients and is therefore subject to variations arising from the differing financial means of clients. This presents risks in achieving the budgeted level of income.	The council cannot predict or influence the ability of clients to fund their care packages. However, it is essential that robust processes are in place to ensure timely financial assessments and billing of clients to maximise income.
Corporate / CH&I	Trading Surpluses	It is currently assumed that the trading services will achieve their budgeted surplus. However, there is a significant risk of a shortfall in that achievable by Building Services. In addition, there is a risk that the current downturn in the oil industry may affect the Property Letting market whilst Car Parking is showing signs of falling income.	Building Services – detailed work must be undertaken on a regular basis to ensure there is full understanding of job costing and the associated billing position. Property Letting and Car Parking – continued awareness and review of the position is required.
Corporate	Contingency	A number of specific contingency sums are held e.g. to fund the pay award as well as credit amounts for savings not allocated specifically to services. For these credit amounts – procurement and vacancy management – it has been assumed that the savings are included in the forecast actuals of services and thus will not be allocated against the contingency. Furthermore, it has been assumed at this stage that the general contingency amount will not require to be utilised. There is a risk that presently unknown costs may exceed the level of contingency remaining.	Work is required to verify that vacancy management savings within services are in line with those identified within services. In addition, there should be an alignment of procurement savings identified against service budgets. This has historically proved to be challenging. Continual review of the financial position and any calls on contingency must be undertaken.

APPENDIX C

As at Period 4 2015/16	Figures for Total Project				
Non Housing Capital - Projects	Approved Budget	Expenditure to Date	Forecast Expenditure		
	£'000	£'000	£'000	Pr	Cu
Communities Housing & Infrastructure	229,423	62,067	229,423	G	G
Corporate Governance	5,700	979	5,700	G	G
Education & Children's Services	132,788	14,204	132,788	G	G
Integration Joint Board	4,400	310	4,400	G	G
Construction Inflation (Unassigned)	2,500	0	0	G	G
	374,811	77,560	372,311	G	G
As at Period 4 2015/16	Figures for Total Project				
Non Housing Capital - Rolling Programmes	Approved Budget	Expenditure to Date	Forecast Expenditure		
	£'000	£'000	£'000	Pr	Cu
Communities Housing & Infrastructure - Rolling Programmes	20,981	4,273	20,981	G	G
	20,981	4,273	20,981		