

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy & Resources
DATE	18 February 2016
INTERIM DIRECTOR	Richard Ellis
TITLE OF REPORT	Council General Fund Monitoring 2015/16
REPORT NUMBER	CG/16/010
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 December 2015 can be seen in Appendix A.
- 3.1.2 The indications are that an underspend of £3.2 million against budget is achievable. This is a favourable movement of £0.7 million from the last reported underspend of £2.5 million.
- 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.
- 3.1.3 As highlighted in the last report to this committee, the figures for services include the impact of the pay award. Since the last report, services have sought to manage the impact of the pay award within existing budgets thereby alleviating the need for any budget allocations from the corporate contingency budget. This is testament to the good financial management practices that exist across the council.

- 3.1.4 In absorbing the pay award within existing budgets, it should be appreciated that there may be a need for budget virements to take place and these will require to be done in accordance with the "Scheme of Virement" as contained within the council's Financial Regulations. Details of the scheme can be seen at Appendix D and it should be noted that in some instances committee approval is required for virements.
- 3.1.5 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.
- 3.1.6 Appendix B provides details of these assumptions and areas of risk.
- 3.1.7 The council has a number of earmarked reserves for specific projects. It is currently predicted that £13.3 million of these will be used during 2015/16.
- 3.1.8 A review of earmarked reserves has been undertaken as part of the budget process with a number being recommended for removal and added to the Financial Risk Fund. This is subject to consideration and approval by Council on 25th February 2016. A further review will be undertaken as part of the year end process and reported to this committee in due course.

3.2 Capital

- 3.2.1 The financial position as at the end of December 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 It should be noted that the forecast expenditure position reflected in Appendix C does not take account of projected variances in cost profiles for currently approved projects which require to be considered by Council as part of the budget setting process.
- 3.2.4 An allowance for construction inflation for existing projects is included within the programme. The construction market in the area remains buoyant with this high level of activity reflected in tender prices. Officers continue to monitor these trends and review and update cost profiles accordingly. For example, the Berryden Corridor and the New Academy to the South projects have been updated to reflect current cost estimates and are included in the proposed 5 year Non Housing Capital Programme to be considered by Council on 25th February 2016.

3.2.5 It is also worth drawing attention to a number of major projects not currently included in the capital programme which will also be considered for approval by Council on 25th February 2016:

- New Aberdeen Exhibition & Conference Centre (AECC) – this project has previously been approved by Council. The elements of this project being funded by the council, totalling £81.6 million are profiled into the programme to be considered by Council.
- Street Lighting LED Lanterns – this project, generated from the Procurement Achieving Commercial Excellence (PACE) programme, will see the proposed investment of £7.5 million over 5 years, making use of new technology to improve the quality of street lighting whilst generating energy efficiency savings for the council.
- Flood Prevention – the council's Flood Risk Management Plan identifies a number of Flood Prevention schemes to address flooding issue across the city and officers work with SEPA to determine how these schemes can be progressed. Following the flooding issues encountered in January four projects are proposed for acceleration with investment of £5 million included in the programme being presented to Council on 25th February 2016.

3.2.6 Elected Members will be aware of the recent commitment made by the UK and Scottish Governments to a joint (50/50) £250 million investment in the delivery of the Aberdeen City Region Deal proposals over the next 10 years. Investment by the council towards the implementation of priority projects will need to follow proper governance processes including consideration through the budget process.

3.2.7 The impact of the decisions made by Council on 25th February 2016 will be reflected in future reports to this committee.

3.2.6 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.

3.3 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 subject to the budget being set on 25th February 2016.

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 third 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.

6. IMPACT

Improving Customer Experience –

No direct impact arising from this report.

Improving Staff Experience –

No direct impact arising from this report.

Improving our use of Resources –

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.

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

Corporate -

Financial governance is a vital part of ensuring that the resources required to take forward the council's plans and vision are robustly monitored and used effectively.

Public –

This report is likely to be of interest to the public as it concerns the stewardship of the council's financial resources.

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

Sandra Buthlay, Accounting Manager
sbuthlay@aberdeencity.gov.uk
01224 522565

Aberdeen City Council
Corporate Financial Reporting Summary 2015/16

As at end of December 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 9							
Services							
Office of Chief Executive	2,452	2,522	70	3,241	3,466	225	6.94%
Corporate Governance	20,982	20,260	(722)	27,629	25,929	(1,700)	(6.15%)
Communities, Housing & Infrastructure	61,068	55,547	(5,521)	81,424	82,085	661	0.81%
Education & Children's Services	161,346	155,336	(6,010)	213,208	213,251	43	0.02%
Adult Social Care	66,152	65,529	(623)	88,195	88,121	(74)	(0.08%)
Total Service Budgets	312,000	299,194	(12,806)	413,697	412,852	(845)	(0.20%)
Miscellaneous Services	4,310	3,970	(340)	35,829	35,348	(481)	(1.34%)
Council Expenses	1,193	854	(339)	2,114	2,664	550	26.02%
Joint Boards	1,170	1,008	(162)	1,560	1,401	(159)	(10.19%)
Contingencies	2,777	0	(2,777)	3,792	1,561	(2,231)	(58.83%)
Trading Surpluses	(10,023)	(9,477)	546	(13,365)	(12,633)	732	(5.48%)
Total Corporate Budgets	(573)	(3,645)	(3,072)	29,930	28,341	(1,589)	(5.31%)
Total Net Expenditure	311,427	295,549	(15,878)	443,627	441,193	(2,434)	(0.55%)
Funding:							
<u>Government Support:-</u>							
Revenue Support Grant & Non Domestic Rates	(254,853)	(255,592)	(739)	(339,804)	(339,804)	0	0.00%
<u>Local Taxation:-</u>							
Council Tax & Community Charge Arrears	(77,867)	(89,415)	(11,548)	(103,823)	(104,635)	(812)	0.78%
Total Funding	(332,720)	(345,007)	(12,287)	(443,627)	(444,439)	(812)	0.18%
Net Impact on General Fund (Surplus)/Deficit	(21,293)	(49,458)	(28,165)	0	(3,246)	(3,246)	0.00%
Transfer from GF Earmarked Reserves (Used)	8,043	2,105	(5,938)	13,339	13,339	0	0.00%
Transfer to GF Earmarked Reserves (Added)	0	0	0	0	(3,246)	(3,246)	0.00%
Transfer (to)/from GF Uncommitted Reserves	0	0	0	0	0	0	0.00%
Net Impact on General Fund	(13,250)	(47,353)	(34,103)	13,339	10,093	(3,246)	(24.33%)

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	<p>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.</p>	<p>Continue to monitor progress against budget to ensure the assumed level of underspend is achievable.</p>
	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	<p>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.</p>	<p>Continue to monitor economic activity across the city and the impact this could have on the achievement of planning income.</p>

	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 9 2015/16 Non-Housing Capital - Projects	Figures for Total Project			
	Approved Budget	Expenditure to Date	Forecast Expenditure	
	£'000	£'000	£'000	
Communities Housing & Infrastructure - Projects	233,698	79,302	233,619	G G
Corporate Governance	5,700	1,180	5,700	G G
Education & Children's Services	133,568	21,693	133,729	A R
Integration Joint Board	4,400	421	4,400	G G
Construction Inflation (Unassigned)	2,500	0	2,500	G G
	379,866	102,597	379,948	

As at Period 9 2015/16 Non-Housing Capital - Rolling Programmes	Figures for Total Project			
	Approved Budget	Expenditure to Date	Forecast Expenditure	
	£'000	£'000	£'000	
Communities Housing & Infrastructure - Rolling Programmes	20,981	12,106	19,191	G G
	20,981	12,106	19,191	

APPENDIX D

Extract from the Financial Regulations, Management & Control – A Code of Practice (approved 8 October 2014)

8.4 Revenue Budget Management

- 8.4.1 Budget Holders shall be responsible for monitoring their budgets in accordance with these Regulations, Standing Orders and corporate procedures and timetables, using the relevant financial systems as determined by the Head of Finance.
- 8.4.2 No expenditure should be incurred unless it can be included within an approved budget.
- 8.4.3 If it becomes apparent that any item of income or expenditure is likely to vary significantly from budget estimates, this shall be reflected as a variance in revenue budget monitoring reports and reported to the relevant Service Committee. If this is a permanent variance then a budget virement may be approved following the guidelines below.

8.5 Scheme of Virement

- 8.5.1 The term "virement" refers to the switching of budgetary provision from one budget head to another.
- 8.5.2 Any proposal for virement involving a new policy, or variation of existing policy, which may have a significant impact upon the corporate plans of the Council, will be subject to the approval of the appropriate Service Committee, in the first instance, and thereafter the Finance, Policy and Resources Committee.
- 8.5.3 The Chief Executive, Directors, Heads of Service and Budget Managers may exercise virement, as set out below, within the Services' overall Revenue Budget provided:
 - The Head of Finance has been notified; and
 - The virement does not create an additional financial commitment into future financial years.
- 8.5.4 Virement cannot be used by services in the following situations:
 - for expected savings on finance costs or recharges;
 - for recurring items of expenditure in place of non-recurring savings;
 - for property items such as rates and utilities;
 - any savings against a property which has been declared surplus under the Council's surplus asset procedure;
 - to reinstate an item deleted by Council during budget considerations unless approved by the appropriate Service Committee AND the Finance, Policy and Resources Committee;
 - for service budgets which are committed to and included within partnership agreements; and

- between services that are budgeted and funded through Council house rents and the Council tax i.e. the Housing Revenue Account and General Fund budgets.

8.5.5 Education establishments within the scheme of Devolved Education Management (DEM) may vire between different categories of specified budgets in accordance with the scheme regulations

Scope	Limit	Approval to Vire
1. Within Account Code Groupings, within individual budget holder areas of responsibility (e.g. printing & stationery to telephones – within admin costs)	Up to £20,000 or 10% of the budget grouping, whichever is the lesser	Budget Manager
	Up to £100,000	Head of Service
	Over £100,000	Director, reported to Service committee in Service Monitoring Report
2. Between Account Code Groupings, within individual budget holder areas of responsibility (e.g. Administration Costs to Supplies & Services)	Up to £20,000 or 10% of the budget grouping, whichever is the lesser	Budget Manager
	Up to £100,000	Head of Service
	Over £100,000	Director, reported to Service committee in Service Monitoring Report
3. Between Functional Services Budgets but within Head of Service area of responsibility (e.g. Primary to Secondary Education, Libraries to Museums, or Learning Disability to Mental Health)	Up to £20,000 or 10% of the budget grouping, whichever is the lesser	Head of Service
	Up to £100,000	Director, reported to Service committee in Service Monitoring Report
	Over £100,000	Service Committee
4. Between Functional Service Budgets within Directorate Budgets (e.g. transfer from Education to Culture)	Up to £250,000	Director, reported to Service committee in Service Monitoring Report
	Over £250,000	Service Committee
5. Between Directorate Budgets i.e. across committees (e.g. transfer from Education & Children's Services to Communities, Housing and Infrastructure)	Up to £500,000	Corporate Management Team, reported to Service Committees in Service Monitoring Reports
	Over £500,000	Finance, Policy and Resources Committee