

## ABERDEEN CITY COUNCIL

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**COMMITTEE:** FINANCE AND RESOURCES  
**DATE:** 11 MARCH 2010  
**REPORT BY:** CITY CHAMBERLAIN  
**TITLE OF REPORT:** REVENUE BUDGET 2009/10 MONITORING  
**REPORT NUMBER:** CG/10/055

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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. notes the contents of this report and the implications of the projected figures on the general fund balance;
2. 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. 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 £5.535 million before exceptional items, and represents a surplus on the general fund budget. This has moved significantly and favourably since the last report with an improvement of approximately £3.1 million being forecast.

- 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 £20.316 million, representing 4.6% of the net 2009/10 revenue budget
- 3.4 The Council, at the last meeting, approved a further sum to be earmarked in order to support the cost of exit costs for staff leaving. The value of this is £7.6 million and after taking account of the Consent to Borrow facility available in 2009/10 this would mean the Council has projected uncommitted balances at the year end of £16.316 million, 3.7% 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 January 2010 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 £5.535 million against the budget. This is a favourable movement of £3.090 million on the position last reported to the Committee.
- 6.5 The detail behind the favourable movement reveals improving financial projections across all Services, with savings being achieved from a range of budget headings and income generation also benefiting the position. The cost pressures resulting from the Operational budgets is now estimated to be approximately £1.9 million, representing a variance from budget of 0.5%
- 6.6 The prolonged winter conditions have an impact upon the Council and in the last report it was identified that there was potential for £1 million of expenditure to be incurred beyond the budget. At that time the actual additional cost had been approximately £0.5 million. Since then it is still estimated that £1 million of expenditure should be included in the full year estimates and based on the latest reports, the actual spend has increased to approximately £0.8 million. It should be noted that if for any reason the expenditure had to increase beyond £1 million then the Council contingencies would be able to absorb the costs, without affecting the overall projected outturn position.
- 6.7 While the position continues to improve overall there remains pressure on operational budgets, 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. At this time of year this does reflect a prudent view of the likelihood that significant further expenditure will be incurred that is of an unplanned or exceptional nature. If these contingencies are not needed then there is scope for further improvement to the projected outturn figures, and the value could amount to more than £2 million.

### **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. This refers to the reclamation of VAT resulting from recent case law that covered the areas of culture and leisure activities.
- 6.11 A net income of £5.997 million has been predicted for the year.
- 6.12 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.
- 6.13 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.
- 6.14 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 £11.532 million (net revenue budget surplus £5.535 million plus exceptional item £5.997 million).

### **Management Actions**

- 6.15 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.
- 6.16 The following actions continue to be applied and are being undertaken across and within services to enable the Council to achieve the current projected outturn position and wherever possible 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**

- 6.17 In the last report it was highlighted that the Council had made application to the Scottish Government, seeking consent to borrow for one-off equal pay costs. In mid February, and a little later than had been expected, the Council received the outcome of its application.
- 6.18 The Scottish Government has not provided any new consent to borrow, based upon the application, submitted in November 2009. However, recognising the significant value of payments that the Council may face for settling outstanding equal pay claims it has allowed an extension to the current consent that Aberdeen City Council has in place and has done so by removing the limitations that had previously been placed upon the consent. The consent to borrow now runs until 31 March 2011.
- 6.19 This does provide a positive outcome for the Council however not to the scale that had been hoped for. In the application made in 2008/09 the Council specifically highlighted certain groups of staff for which there was and had been equal pay liabilities settled. This resulted in a restriction being placed on the amount that could be borrowed. As a result of this latest development those restrictions in 2009/10 and going forward into 2010/11 have been removed and where the Council has settled a one-off equal pay claim then this can count towards the value that could be borrowed.
- 6.20 The impact on the Council is that it increases the value that can be borrowed by approximately £2 million and allows this to be applied against costs incurred in the current year as well as in 2010/11.
- 6.21 Based upon the consent to borrow criteria that were being applied the Council has already identified expenditure that will enable the release of approximately £3.6 million in the current year. The £2 million referred to above is in addition to this sum and its use will be dependent upon identifying expenditure that can be justified within the context of the consent to borrow scheme. This may occur in 2009/10 or in 2010/11.
- 6.22 Members will note that costs are incurred in taking this course of action, 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.

6.23 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.

### **Summary Position**

6.24 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.

6.25 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.

6.26 Unexpected income, from HMRC, provides a degree of comfort for the Council enabling it to make a contribution to its reserves and balances. 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.

6.27 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.

6.28 The summarised Net Revenue position can be shown as follows

	<b>£ million</b>	<b>£ million</b>
Net Revenue Budget (Surplus) / Deficit (projected)	(5.535)	
Exceptional Items	<u>(5.997)</u>	
<b>Total Movement on General Fund Balance (Increase) / Decrease</b>		<b><u>(11.532)</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)

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

	<b>£ million</b>	<b>£ million</b>
Uncommitted General Fund Working Balance -1 April 2009	(8.784)	
Movement on General Fund Balance (See 6.28)	<u>(11.532)</u>	
<b>Revised Uncommitted General Fund Working Balance</b>		<b>(20.316)</b>
Release of Equal Pay provisions through Consent to Borrow arrangements already in place (See 6.21)	(3.600)	
Approved earmarking of General Fund Balance to support the Staff Reduction Exercise (See 3.4)	<u>7.600</u>	<u>4.000</u>
<b>Projected Uncommitted General Fund Working Balance – 31 March 2010</b>		<b><u>(16.316)</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;