

ABERDEEN CITY COUNCIL

COMMITTEE: FINANCE AND RESOURCES
DATE: 11 MAY 2010
REPORT BY: CITY CHAMBERLAIN
TITLE OF REPORT: REVENUE BUDGET 2009/10 MONITORING
REPORT NUMBER: CG/10/085

1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to inform Members on the updated projected outturn and financial position for the Council for financial year 2009/10.

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. approve the earmarking from the General Fund balance as at 31 March 2010 a sum of £117,000 received by the Council from Transport Scotland, for use in 2010/11;
3. note that the final outturn, following the preparation of the draft financial statements, for 2009/10 will be presented to the 30 June meeting of the Council.

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 £3.383 million before exceptional items, and represents a surplus on the general fund budget. This reflects an adverse movement of £2.152 million, which takes into account a number of issues, including a provision for equal pay liabilities that may be due.

- 3.3 An exceptional item to the value of £6.099 million arises as a result of the payment of outstanding VAT 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 £18.266 million, representing 4.2% of the net 2009/10 revenue budget
- 3.4 The Council, during the year, 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 it would reduce the working balances by £4 million. If the recommendation to earmark the Transport Scotland funding is also approved this would mean the Council has projected uncommitted balances at the year end of £14.149 million, 3.2% 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 have been identified by each Director and reported as necessary to the relevant service committee during the year.

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 March 2010 and the projections based thereon. Appendix A includes a summary of the overall Council projected position, which it should be noted is subject to the finalisation of year end accounting transactions, accruals and external audit process.

Financial Position

- 6.4 In overall terms the statement at Appendix A shows a favourable net position, before exceptional items, of £3.383 million (£5.535 million in last report) against the budget. This is an adverse movement of £2.152 million on the position last reported to the Committee.
- 6.5 The detail behind the adverse movement reveals relatively small changes across all the Services, with increasing costs and reducing income in some areas being offset by positive changes in other areas, the most significant being the removal of a separate provision for winter maintenance costs that had been built into the figures presented in the last report.
- 6.6 Included within the Enterprise, Planning and Infrastructure projections is the receipt of £0.117 million from Transport Scotland which was paid at the very end of the financial year. This has been provided as part of £5 million released across Scotland to assist with pothole and road repair following the severe winter weather conditions. As this has not yet been spent it provides a favourable movement on the overall Council position and in order to make use of this money in 2010/11 it is recommended that the Committee approves the earmarking of this sum from the General Fund balance as at the end of March 2010.
- 6.7 Within the corporate budgets it was explained earlier in the year that the substantial saving on capital financing costs was as a result of work undertaken by our Treasury Advisors who identified that there was an opportunity - linked to market conditions - to benefit from the rescheduling of a loan. That, linked with lower capital expenditure in 2008/09 than had been used to calculate the 2009/10 revenue budget meant the Council could secure an overall £6.3 million favourable variance against these budgets in 2009/10.
- 6.8 There is further benefit to be derived by the Council from a better than expected loans pool rate in 2009/10 and changes to the profile of capital expenditure that means a further saving of £1 million will be achieved on the cost of capital financing charges. This brings the total saving to over £7 million in 2009/10.

- 6.9 A favourable variance is included in the projections through the reversal of a provision that had been put in place at the end of 2008/09. When closing the accounts last year the Council took into account the fact that there was an outstanding assessment by HMRC in relation to a National Insurance query. Following much correspondence the matter has been recently resolved and the payment that has been made to HMRC is substantially lower than had been provided for. This means that the balance, approximately £1 million, can be put back into the Council's General Fund.
- 6.10 Since the last report the Council has completed some preliminary work on its outstanding Equal Pay liabilities and as such, with figures having been calculated, and although they are subject to a multitude of factors it is reasonable that these figures are incorporated into the Council's financial position for the year. This is in line with account practice and will require to be reviewed on a periodic basis to ensure that the provision remains appropriate to the circumstances of the Council. The equal pay liabilities exist as a result of previously held terms and conditions, past decisions and circumstances of individuals.
- 6.11 On the funding side, the Council will benefit from additional government support as disclosed in previous reports however with limited ring-fencing of grants now the norm, the position reflects income for regeneration and teachers induction, which increases the total receivable.
- 6.12 Council tax has also been considered in more detail and the benefit of increased numbers of houses against which a charge applies is evident. The mix and pattern of reliefs and discounts varies year on year and this also makes the prediction of this value subject to change. The favourable variance is subject to a review of the bad debt provision as part of the year end work and any change will be incorporated into the draft accounts for the year.
- 6.13 The projected outturn figures reflect the progress on achieving approved budget savings of £27 million, which were incorporated into the budget.
- 6.14 The projections for the corporate contingencies have been reduced by £0.909 million, leaving a balance which may be required as part of the year end. The work at this time of year will include a full review of the various provisions that the Council has to establish or increase/decrease. Particular note will be taken of the bad debt provisions in specific circumstances, for example Council Tax as mentioned at 6.12 above, or in the more general collection of sundry debts.

- 6.15 Furthermore there requires consideration to be given to the values that are chargeable to other Council accounts that may vary from the projections made during the year and there needs to be a recognition of any further earmarking of sums from the General Fund balance that may have an impact on the working balances.
- 6.16 In trying to ensure that this is all incorporated into this financial monitoring statement the sum of £2 million has been retained in contingencies to cover any such circumstances. All final adjustments will be recorded in the Service or Corporate budgets as part of the year end and this will be reported to the Council at the end of June 2010.

Exceptional items

- 6.17 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.
- 6.18 A net income of £5.997 million had been predicted for the year and this has increased by £0.102 million with the receipt of two smaller sums in March, a total of £6.099 million for the year.
- 6.19 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.
- 6.20 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.

Overall

- 6.21 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 £9.482 million (net revenue budget surplus £3.383 million plus exceptional item £6.099 million).

Management Actions

- 6.22 Throughout the year improvements in the projected outturn figures continued, supporting the message that beneficial impact can be derived through specific and concerted management action, none of which was easy but was absolutely necessary.

- 6.23 Following the end of the financial year there is little that managers can do to influence the final position. However it is expected that managers do participate in the process of closing the accounts and ensure that for example transactions are accurately recorded, invoices are passed for payment and work in relation to variance analysis is supported by them. The finance staff will ensure that year end processes are completed and that consideration is given to issues such as provisions as well as analysing the position in relation to last year and the projections made during the year.

Consent to Borrow – Equal Pay

- 6.24 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 the Council received the outcome of its application.
- 6.25 The impact on the Council was 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.
- 6.26 Based upon the equal pay liabilities that the Council has, which are taken account of in the projected outturn figures for 2009/10, there is the ability for the Council to use the consent to borrow during 2010/11 to enable the Council to smooth out the impact that these payments will have on the General Fund position if it was deemed necessary. This will depend on when settlement is reached for any of the outstanding claims.
- 6.27 Members will note that costs are incurred by borrowing, and the fact repayments 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.
- 6.28 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

- 6.29 The projections made for the year, shown in Appendix A, should be considered as accurate as is possible at the time of writing this report. They establish a better than originally expected position, with contributions to the General Fund balance being made during the year. It should be recognised that the projections remain subject to the finalisation of all the year end work including the review of provisions and confirmation of external recharges.

- 6.30 During the year there have been underlying cost pressures that have presented challenges for all Services. In addition there have been uncertainties particularly in relation to the weather and the economic climate which have led to a range of operating and market conditions that have had an impact on the overall financial achievements of the Council.
- 6.31 Unexpected income, from HMRC, provided a welcome cash injection to the Council. 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.
- 6.32 The Council is also been able to recognise an increase in its estimated liability for equal pay claims which should be noted with interest.
- 6.33 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 in 2010/11 and the future. An example of the ongoing work in this area includes the voluntary staff reduction exercise currently underway across the Council.
- 6.34 It will be necessary for the Council to also consider for the draft accounts its need to earmark sums from its General Fund balance for any specific one-off costs. This report makes a recommendation that monies received at the end of the financial year from Transport Scotland should be the first to be considered. Any further recommendations will be included in the report to Council in June 2010.
- 6.35 The summarised Net Revenue position can be shown as follows

	£ million	£ million
Net Revenue Budget (Surplus) / Deficit (projected)	(3.383)	
Exceptional Items	<u>(6.099)</u>	
Total Movement on General Fund Balance (Increase) / Decrease		<u>(9.482)</u>

6.36 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 6.35)	<u>(9.482)</u>	
Revised Uncommitted General Fund Working Balance		(18.266)
Recommended for approval, earmarking of Road Maintenance funding received from Transport Scotland (see 6.6)	0.117	
Release of Equal Pay provisions through Consent to Borrow arrangements already in place	(3.600)	
Approved earmarking of General Fund Balance to support the Staff Reduction Exercise (see 3.4)	<u>7.600</u>	<u>4.117</u>
Projected Uncommitted General Fund Working Balance – 31 March 2010*		<u>(14.149)</u>

* This projected balance is subject to the finalisation and audit of the 2009/10 financial statements which will include consideration of all provisions and any one-off amounts that should be earmarked for use in 2010/11.

7. AUTHORISED SIGNATURE

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9. BACKGROUND PAPERS

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