

ANGUS COUNCIL

FINANCE AND INFORMATION TECHNOLOGY COMMITTEE – 1 MAY 2001

ITEM No 10

POLICY AND RESOURCES COMMITTEE – 8 MAY 2001

GENERAL FUND REVENUE BUDGET-
VIREMENT FLEXIBILITY BETWEEN FINANCIAL YEARS

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report appraises members of the outcome of the pilot scheme carried out which allowed budget virement flexibility between financial years 1999/00 and 2000/01 and proposes the continuation of the scheme on a permanent basis subject to some alterations.

1. RECOMMENDATIONS

The Committee is asked to:

- (a) note the outcome of the pilot virement flexibility scheme between financial years 1999/00 and 2000/01 as detailed in section 4 of this report;
- (b) agree to the continuation of the scheme on a permanent basis; and
- (c) agree the amendments to the operation of the scheme as set out in section 5 of this report.

2. INTRODUCTION

Report 136/00 to the Finance and Information Technology Committee on 1 February 2000 recommended a pilot virement flexibility scheme between financial years 1999/00 and 2000/01 as part of the 2000/01 budget process.

Prior to the introduction of the pilot exercise, budget flexibility existed for all General Fund Departments in the form virement within the cash limited budget but this was restricted to within a specific financial year. All year-end underspends apart from those arising under the devolved school management system were allocated to the overall General Fund balance.

The existence of a reasonable General Fund balance is part of having sound financial management arrangements in place and brings about significant budget advantages to General Fund departments, e.g. funding of pay award budget shortfalls, contributions to Renewal and Repair Funds which departments can subsequently access, funding of corporate/policy led budgeting initiatives. However a potential disadvantage of the annualised budget system is that it may encourage a "use it or lose it" culture leading to a less efficient use of scarce resources.

Allowing virement flexibility between financial years was seen as a potentially useful financial management tool aimed at assisting with the integration of strategic planning and three year budgeting. This tool encourages departments to consider beyond the current financial year and to think strategically about the use of resources, rather than to respond to year-end pressures to maximise spend.

3. MAIN FEATURES OF THE PILOT SCHEME

The pilot scheme allowed each Head of Service to utilise up to 50% of underspends on their overall 1999/2000 controllable budgets to help deliver priorities in financial year 2000/01.

Controllable budgets were defined as all net costs attributable to a service excluding:

- (a) Central Service Support Costs;
- (b) Capital Charges;
- (c) Items funded by Specific Grant;
- (d) Archimedes (Property Maintenance) Recharge;
- (e) Energy Costs Recharge;
- (f) Corporate Budget Transfers – i.e. decisions taken for whatever reason to remove expenditure from a departmental budget spend by transferring to a “Corporate” Fund e.g. transfer to a Renewal and Repair Fund due to budget difficulties; and
- (g) Substantial windfall gains arising from external factors, e.g. legislative taxation changes etc.

The above exclusions were intended to remove budget heads for which departments were not fully accountable. However, any supplementary amounts added to budgets (e.g. pay award shortfalls) were included in the allowable controllable budget.

Budget flexibility operated on a “bottom-line” basis whereby any overspends required to be contained within an aggregate underspend at departmental level, in other words the Cash Limited Budget discipline employed by the Council had to be maintained.

To help deliver a fair and equitable 2000/01 budget setting framework across all council departments individual ceilings were applied to the amount of budget flexibility between years available to each department. It was considered that in order to ensure each department absorbed an actual element of proposed savings in the 2000/01 budget exercise no more than 50% of the eventual 2000/01 savings target figures per department could be met by utilisation of the budget flexibility between years facility.

4. EVALUATION OF THE PILOT

- A number of General Fund departments were in a position to utilise the scheme to address issues in the 2000/01 financial year. After adjusting for over/underspends on uncontrollable budgets some £354k was carried forward from financial year 1999/00. Details of the relevant departments and the corresponding carry forward amount are provided in the table below. Given that the £354k represents only 50% of the actual underspend which existed it can be seen that a total underspend on controllable budgets in excess of £700k existed in financial year 1999/00.

Department	£000
Cultural Services	9
Environmental & Consumer Protection	109
Recreation Services	19
Chief Executive	17
Members' Services	18
Finance – General	7
Law & Administration	31
Information Technology	40
Personnel	10
Property Services	19
Economic Development	35
Training Services	20
Finance – Revenues	13
Civil Defence	5
Registrars	2
TOTAL	354

It will be noted from the above that the three largest spending departments (Education, Social Work and Roads) did not have a net underspend on their budget in financial year 1999/00 which could be carried forward. Despite this the Service Directors for these services still view the virement flexibility scheme to be of benefit and may look to utilise the scheme in future financial years if available.

As part of the evaluation of the pilot scheme, virement flexibility between financial years was discussed with each Service Director during the Budget Review Group meetings held as part of the 2001/02 budget process. Discussion at these meetings resulted in positive feedback on the scheme and although a number of potential changes were suggested all Service Directors considered the availability of the scheme to be of benefit.

The main conclusions which can be drawn from the evaluation exercise is that the scheme is viewed by Directors as a useful management tool to have available particularly when departments are faced with cost pressures and restricted budgets. They would therefore wish to see this scheme made a permanent feature of the Council's financial management arrangements.

Given the success of the pilot it is proposed to continue the scheme on a permanent basis to offer departments continued flexibility in dealing with budget problems.

5. PROPOSED AMENDMENTS TO THE SCHEME

Prior to considering the proposed amendments to the scheme it is important to recognise why the carry forward flexibility was restricted. Allowing an unlimited level of budget carry forward would undermine basic budget disciplines. The Council allocates its available resources to departmental directors in order that they may deliver key services. Failure to spend to within a reasonable level of the budget available could be viewed as a failure to maximise service delivery.

It is also important to note that restricting the level of carry forward does not result in the benefit of these resources being lost to the department. The element of a budget underspend not carried forward flows into the General Fund balance. The existence of a reasonable level of General Fund balance is a matter of good financial management but it also brings about significant budget advantages to all General Fund departments as previously outlined in section 2. If budget carry forward flexibility was permitted to progress without some form of control limits the wider corporate budget options applied by the Council may be lost and any future savings targets applied to departments could be more acute.

It is proposed to continue the scheme on a permanent basis but, given the above, this should be done within strictly defined parameters. It is proposed that the maximum carry forward available to departments is restricted to either a set sum ceiling amount or 50% of underspends on controllable budgets whichever is lower. Details of the proposed limits for each department are provided in the table below and are based on placing each department into 1 to 3 categories similar to the way virement limits are currently applied. All other aspects of the scheme as it operates at present would remain unaltered.

	Category 1	Category 2	Category 3
	Education Social Work	Roads Cultural Services Environmental & Consumer Protection Recreation Services Planning & Transport	Chief Executive Members' Services Civil Defence Economic Development Finance – General Finance – Revenues Law & Administration HQ Buildings Registrars Print Unit Information Technology Personnel Training Services Property Services Local Offices Other Housing
Carry Forward Limit	£100,000	£50,000	£30,000

Given the unique position of Angus Contracts it is proposed that any additional surplus generated beyond the level budgeted be made available to the Contract Services Manager on a £ for £ basis up to a maximum of £100k but always subject to rate of return requirements.

Additionally, given the nature of the budget involved it is proposed that no budget carry forward be permitted on any Miscellaneous Other Services Budgets, other than those budgets funded from Policy Led Budgeting for which entirely separate arrangements apply.

Variations to the above limits may be permitted if exceptional circumstances prevail. These instances will be considered on an individual case by case basis. It is suggested that such variations would be subject to the agreement of the Chief Executive and the Director of Finance and reported for information to the Finance & Information Technology Committee as part of the normal budget monitoring reports.

As a final amendment to the scheme it is proposed that any underspends arising in an area funded by ringfenced (hypothecated) resources be allowed to be carried forward in full but only for their hypothecated purpose. This would be in recognition of the tight timescales that are often set by, for example, the Scottish Executive for spending resources. To not allow full carry forward in these areas could result in the Council losing grant.

6. HUMAN RIGHTS IMPLICATIONS

There are no human rights implications as a result of this report.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising as a result of this report. The operation of the virement flexibility scheme as outlined in this report will be incorporated in the Financial Regulations at its next review.

8. CONSULTATION

The Chief Executive and the Director of Law & Administration have been consulted on the contents of this report. In addition all members of the Chief Officers' Management Team have confirmed their agreement to the proposed amendments to the operation of the scheme as detailed in this report.

9. CONCLUSION

The pilot virement flexibility between financial years 1999/00 and 2000/01 generated positive feedback from Service Directors and a wish to see this made a permanent feature of the Council's financial management arrangements. The scheme is considered a useful management tool to have available in times of cost pressures and restricted budgets and it is recommended that this scheme is continued on a permanent basis subject to the amendments set out in this report.

David S Sawers
Director of Finance

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.