

# Public Document Pack



To: Councillor Lumsden, Convener; Councillor Grant, Vice Convener; and Councillors Boulton, Donnelly, Jackie Dunbar, Flynn, Laing, Nicoll and Yuill.

Town House,  
ABERDEEN 25 October 2019

## **CITY GROWTH AND RESOURCES COMMITTEE – SPECIAL MEETING**

The Members of the **CITY GROWTH AND RESOURCES COMMITTEE** are requested to meet in **Committee Room 2 - Town House** on **WEDNESDAY, 30 OCTOBER 2019 at 2.00 pm.**

FRASER BELL  
CHIEF OFFICER - GOVERNANCE

### **B U S I N E S S**

#### **DECLARATIONS OF INTEREST**

- 1.1 Declarations of Interest (Pages 3 - 4)

#### **BUDGETS**

- 2.1 Council Financial Performance - Quarter 2, 2019/20 - RES/19/405 (Pages 5 - 54)

Should you require any further information about this agenda, please contact Mark Masson, email [mmasson@aberdeencity.gov.uk](mailto:mmasson@aberdeencity.gov.uk), or telephone 01224 522989

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## **DECLARATIONS OF INTEREST**

You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether reports for meetings raise any issue of declaration of interest. Your declaration of interest must be made under the standing item on the agenda, however if you do identify the need for a declaration of interest only when a particular matter is being discussed then you must declare the interest as soon as you realise it is necessary. The following wording may be helpful for you in making your declaration.

I declare an interest in item (x) for the following reasons .....

*For example, I know the applicant / I am a member of the Board of X / I am employed by... and I will therefore withdraw from the meeting room during any discussion and voting on that item.*

### **OR**

I have considered whether I require to declare an interest in item (x) for the following reasons ..... however, having applied the objective test, I consider that my interest is so remote / insignificant that it does not require me to remove myself from consideration of the item.

### **OR**

I declare an interest in item (x) for the following reasons ..... however I consider that a specific exclusion applies as my interest is as a member of xxxx, which is

- (a) a devolved public body as defined in Schedule 3 to the Act;
- (b) a public body established by enactment or in pursuance of statutory powers or by the authority of statute or a statutory scheme;
- (c) a body with whom there is in force an agreement which has been made in pursuance of Section 19 of the Enterprise and New Towns (Scotland) Act 1990 by Scottish Enterprise or Highlands and Islands Enterprise for the discharge by that body of any of the functions of Scottish Enterprise or, as the case may be, Highlands and Islands Enterprise; or
- (d) a body being a company:-
  - i. established wholly or mainly for the purpose of providing services to the Councillor's local authority; and
  - ii. which has entered into a contractual arrangement with that local authority for the supply of goods and/or services to that local authority.

### **OR**

I declare an interest in item (x) for the following reasons.....and although the body is covered by a specific exclusion, the matter before the Committee is one that is quasi-judicial / regulatory in nature where the body I am a member of:

- is applying for a licence, a consent or an approval
- is making an objection or representation
- has a material interest concerning a licence consent or approval

- is the subject of a statutory order of a regulatory nature made or proposed to be made by the local authority.... and I will therefore withdraw from the meeting room during any discussion and voting on that item.

## ABERDEEN CITY COUNCIL

<b>COMMITTEE</b>	City Growth and Resources
<b>DATE</b>	30 October 2019
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Council Financial Performance – Quarter 2, 2019/20
<b>REPORT NUMBER</b>	RES/19/405
<b>DIRECTOR</b>	Steven Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Lesley Fullerton
<b>TERMS OF REFERENCE</b>	1.2

### 1. PURPOSE OF REPORT

- 1.1 To provide the financial position of the Council as at Quarter 2 (30 September 2019) and the full year forecast position for the financial year 2019/20, including:
- General Fund and Housing Revenue Account (HRA) revenue and capital accounts; and associated Balance Sheet; and
  - Common Good Revenue Account and Balance Sheet.

### 2. RECOMMENDATION(S)

that the Committee: -

- 2.1 Note the positive cash position that has been achieved for the General Fund and HRA to the end of Quarter 2 as detailed in Appendix 1;
- 2.2 Note the Common Good financial performance to the end of Quarter 2 as detailed in Appendix 3;
- 2.3 Note that the revenue budgets for the General Fund, HRA and Common Good are on target to achieve a balanced position for 2019/20 as detailed in Appendix 2;
- 2.4 Note that the capital expenditure for the General Fund will be lower than budgeted, which will result in project budgets being carried forward into 2020/21; and for the Housing Capital programme the estimate remains that the budgeted funding requirements will be achieved, as detailed in Appendix 2;
- 2.5 Delegate authority to the Chief Officer - Capital following consultation with the Convener of City Growth and Resources Committee and the Head of Commercial and Procurement Services, to consider and approve the business

case for the purposes of procurement regulation 4.1.1 for the refurbishment of Kingsfield Children's Home as detailed in Appendix 2; and

2.6 Approve the budget virements for Housing Capital as detailed in Appendix 2;

### **3. BACKGROUND**

3.1 This report focuses on both the financial performance for the year to 30 September 2019 and the forecast financial position for the full year for the Council's General Fund, Housing Revenue Account and Common Good.

3.2 The performance for the year to date has remained positive with net expenditure largely in line with budget for this stage of the year and core funding ahead of budget targets for the second quarter.

3.3 The forecast to the end of the year, where a balanced position is expected, the General Fund revenue forecast takes account of several key assumptions, including:

- a lowering of staff costs through continued control of staffing vacancies and turnover, and using where appropriate the voluntary schemes the Council has in place;
- no change in demand for out of authority placements for children;
- achievement of income targets from a range of new and increased fees and charges that will only be realised across the whole of the year; and
- a continuing strong emphasis on managing costs.

3.4 The Council retains a contingency budget to address unexpected and unplanned expenditure which could arise as a result of the identified contingent liabilities coming to fruition or from risks included on the corporate and operational risks registers. The CMT and senior management teams routinely review the risk registers and the Chief Officer - Finance tracks the contingent liabilities. Due to the proximity of the 31 October date for the UK leaving the EU, particular attention has recently been given to the potential implications. No specific financial implications have been included in the Quarter 2 position or projected outturn for the year.

3.5 For the General Fund Capital programme it is a significant year, when major projects are due to be completed and will become operational. The financial impact of the Capital Programme on the revenue budget has been fully incorporated into the budgets, but it is too early in the year to be certain of the financial benefit that will be generated by The Event Complex Aberdeen (TECA). It will be later this year before benefits are known and evidence is available, so at this early stage in the year a prudent approach has been taken to those benefits for 2019/20.

3.6 At this stage in the financial year, for the Capital Programme we are anticipating that it will be lower than budget primarily due to the timing of expenditure, which will reduce the requirement for borrowing during the financial year. Project progress is monitored through the Capital Programme Committee.

- 3.7 The Housing Revenue Account is forecasting to be on budget and the associated Housing Capital Programme has incorporated the first of the new build housing projects, at Wellheads, Dyce. The programme is yet to reflect the Summerhill development. These additional homes are generating a new income stream to fund the investment and satisfy a demand for housing.
- 3.8 The Common Good budget is also on track to deliver to budget. The decision taken by Council in August 2017, to provide funding from the Common Good to support the redevelopment of the Aberdeen Science Centre is also expected to be drawn down during this financial year. The Council expects cash balances to be in line with expectations as at 31 March 2020.
- 3.9 Summary of Appendices

1. The financial statements reflect the income and expenditure of the General Fund and Housing accounts for the period to 30 September 2019 and, where the impact of statutory accounting adjustments can be calculated, these have been reflected in the financial statements as required by International Financial Reporting Standards (IFRS). The position at 30 September 2019 is positive as expenditure is broadly in line with budget and income is ahead of budget, due to the profile of income from Scottish Government and positive Council Tax collection levels – in the second quarter 74% of the total Council Tax has been collected.

The Balance Sheet figures at 30 September 2019 shows the positive impact of the Council's cash position and an overall increase in net worth of the Council to £1.4 billion. The figures shown include statutory adjustments where these have been made, and where this is not possible the figure as at 31 March 2019 has been used.

2. This provides an overview of the forecast outturns for revenue and capital across the General Fund, Housing Revenue Account and Common Good. These financial statements provide a comprehensive summary of where the Council expects to be at the end of the financial year. These initial forecasts indicate that all revenue accounts are expected to be on budget, with the General Fund continuing to experience cost pressures while managing these across the whole portfolio of services. Capital investment is forecast to be in excess of £200 million for the year, which will be funded by a mixture of Scottish Government Capital Grants, contributions from other partners and borrowing, as well as a substantial contribution from revenue to support the Housing Capital programme.
3. This presents the Common Good position as at 30 September 2019 and provides an overview that shows net expenditure in line with budget for the period.
4. This provides information on the Group Entities. The forecast for the year indicates that there are no material areas of concern in relation to these entities for 2019/20.

#### 4. FINANCIAL IMPLICATIONS

4.1 The full year financial position is provided in Appendix 2 to this report and the revenue positions are summarised below:

<b>Revenue</b>	<b>2019/20 Budget £'000</b>	<b>2019/20 Forecast (Surplus) Deficit exc. Group £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	0	0	0
HRA	(500)	(500)	0
Common Good	2,781	2,781	0

4.2 The capital position can be summarised as follows:

<b>Capital</b>	<b>2019/20 Budget £'000</b>	<b>2019/20 Forecast Expenditure £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	258,550	194,484	(64,066)
HRA	46,760	46,760	0

4.3 Details of key variances for the capital budgets can be found in Appendix 2.

4.4 Appendix 1 includes a Management Commentary providing information on the 2019/20 financial position, including details of the movement between Reserves.

4.5 The usable reserves have moved as follows:

<b>Usable Reserves</b>	<b>Balance at 31 March 2019 £'000</b>	<b>Balance at 30 September 2019 £'000</b>	<b>Movement £'000</b>
General Fund	(35,054)	(121,534)	(86,480)
HRA	(12,308)	(12,308)	0
Statutory & Other	(11,307)	(12,164)	(857)
<b>Total</b>	<b>(58,669)</b>	<b>(146,006)</b>	<b>(87,337)</b>

4.6 The increase in the General Fund is due to the positive cash position that the Council is in at the end of the second quarter. The income received is greater than expenditure incurred and is due to the timing of Scottish Government Grant and total collection of Council Tax. The surplus at 30 September 2019 is recorded as an increase in Usable Reserves and will be used to fund budgeted expenditure later in the year.



## 5. LEGAL IMPLICATIONS

- 5.1 While there are no direct legal implications arising from the recommendations of this report, there are additional reporting requirements due to the London Stock Exchange listing, for example the requirement to notify them ahead of publication of the report.

## 6. MANAGEMENT OF RISK

	Risk.	Low (L), Medium (M), High (H)	Mitigation
<b>Financial</b>	The main financial risk the Council is managing is the increased demand on services.	M	Reviewing all areas of expenditure with a view to only incurring essential expenditure.
	In relation to capital projects there is a risk that following the procurement process tendered costs will vary from that assumed at the time of project approval.	M	Quantification and review of indicative projects costs by suitable qualified staff or external body, where appropriate
<b>Legal</b>	Where actions that impact on the statutory duties of the Council are chosen then there is a risk that the Council will not meet its statutory obligations.	L	Prior to action being taken there would require to be an assessment of the legal implications.
	The potential for identified contingent liabilities to escalate during the year may lead to additional costs that have to be met.	M	Regular review of contingent liabilities by the CFO in conjunction with legal colleagues aims to identify changes and emerging issues.
<b>Employee</b>	There is a risk that changes to budgeted expenditure levels and fiscal restraint will impact on the number of employees working in the Council.	M	Impact assessments can be carried out to identify impact of fewer staff and active management of tasks, including prioritisation and a focus on productivity
<b>Customer</b>	There is a risk that changes to budgeted expenditure levels and fiscal restraint will impact	M	Prioritisation, a focus on productivity and active management of services using the TOM principles to minimise effects.

	on the customer experience.		
<b>Environment</b>	None identified		
<b>Technology</b>	There is a risk that efficiency benefits will not be achieved through digital solutions.	L	The Council has modelled and used industry standards to understand the potential for efficiency gains in the organisation. Effective implementation and adoption at a programme and activity level will mitigate the risks.
<b>Reputational</b>	There is a risk that through the reduction of expenditure the Council may be criticised that spending isn't in line with public expectation of service delivery.	M	The Council has continued to address priority spending areas, and to protect people. It is equally accountable for the use of public funds and to ensure that they are managed robustly. There are a wide range of unknown external factors that require to be balanced to deal with the current operating environment. Regular reporting during the year provides an ongoing description of the position the Council is in and the situations it faces.

## 7. OUTCOMES

<b>Local Outcome Improvement Plan Themes</b>	
	<b>Impact of Report</b>
<b>Prosperous Economy</b>	The Council continues to invest in front-line services across its statutory responsibilities as well as capital infrastructure. Investment in the city will have a positive impact on the economy.
<b>Prosperous People</b>	Robust and effective management of the Council's finances will ensure that services can continue to be provided.
<b>Prosperous Place</b>	Investment will enhance the place by creating a better and more vibrant city in which to live.

This report does not impact on the design principles of the Target Operating Model.

## 8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

## 9. BACKGROUND PAPERS

None.

## 10. APPENDICES

Appendix 1 – Financial Statement for the period ending 30 October 2019  
Appendix 2 – Forecast Financial Position for the year 2019/20  
Appendix 3 – Common Good Financial Statement for the period ending 30 October 2019  
Appendix 4 – Group Entities Forecast Financial Position for the year 2019/20

## 11. REPORT AUTHOR CONTACT DETAILS

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**FINANCIAL STATEMENT  
FOR THE PERIOD ENDING  
30 SEPTEMBER 2019**

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## Management Commentary

The purpose of the management commentary is to inform readers, helping them to assess how the Council is performing and understand our financial performance for the quarter to 30 September 2019.

It also provides an insight into the expected financial performance for the remainder of the financial year 2019/20, the challenges we face and how we will address these challenges to provide stability, financially, thus allowing our citizens to have confidence that we can continue to provide the diverse portfolio of services on which they rely.

## Background

The Council must comply with a wide range of legislation and regulation in the course of its work. Since 2016/17 the issue of bonds on the London Stock Exchange (LSE) has placed an increased level of regulation around council finances in particular. Maintaining a credit rating, annually assessed and compliance with the reporting and disclosure requirements of the LSE means an extra level of scrutiny is placed on the Council.

In 2018/19 the credit rating reassessment by Moody's opinion was an affirmation of the status quo, a rating of Aa3 with a Stable Outlook.

The Council received an unqualified audit opinion for 2018/19 from KPMG, independent external auditor and the outturn position achieved as at 31 March 2019 was in line with forecasts. This has placed the Council in a strong place to move into 2019/20 and tackle the financial pressures that it faces.

As at 1 April 2019 the Council held Usable Reserves of £59 million and had a Net Asset Value of £1.3 billion.

The Council set its 2019/20 budgets on 5 March 2019, approving for the General Fund a range of budget savings options and increasing Council Tax rates by 4.5% to set a balanced budget for the year.

The General Fund budget took account of a range of pay and price inflation pressures, in particular an increased pay award for both 2018/19 and 2019/20 than had been forecast previously. A net increase in the cost of debt reflected the significant investment there has been in recent years in city infrastructure was calculated. There were conditions attached to the Scottish Government financial settlement in relation to funding for Community Health and Social Care and to support maintaining teacher numbers across Scotland. Demand and emerging pressures from out of authority placements and fostering and kinship care were also incorporated.

Since the budget was approved there have continued to be changes to the financial environment. The teachers pay award (backdated to April 2018) was agreed on a three year deal with an additional 4% increase applicable from April 2019. Additional funding has been confirmed by the Scottish Government to fund this in 2019/20 and then again in 2020/21. Teachers' employers pension contributions were due to rise by over 20% in April 2019

however this has been revised and will be implemented from September 2019, the additional cost is only partially funded by additional grant from UK and Scottish Government.

The Housing Revenue Account budget was based on a 4.3% increase in rents from 29 April 2019, which was in line with the Council rent policy. During 2019/20 the Council will consult on a fixed term rent policy to be effective from April 2020.

## **Our Financial Performance : General Fund**

### **• Performance in Quarter 2**

In March 2019, the Council set its General Fund and Housing Revenue Account (HRA) revenue and capital budgets for the financial year 2019/20. Performance for the year is measured against these budgets with the projected full year position considered in Appendix 2 of this report. This section focuses on the actual financial results for the period 1 April to 30 September 2019, presented in the format of our Annual Accounts on pages 5 to 13.

The Expenditure and Funding Analysis, below, provides details of the net expenditure or income position for each service based on actual transactions for the period and the statutory accounting adjustments processed to date.

#### 1. Operations

At 46.51% against the full year budget, the services net expenditure for the year to date is slightly lower than budget. Underlying service data shows that the Council should expect expenditure to be higher in the commissioning of foster care during the year than budget, for the period to the end of Q2 expenditure levels remain in line with budget as payments are paid in arrears. Income levels are lower than expected as at the end of September and reflect invoices being raised in arrears for internal and external customers.

#### 2. Customer

At 55.98% against the full year budget, the function's net expenditure for the year to date is ahead of budget. This is due to a proportion of expenditure being paid out in grants, which are typically paid in advance and the timing of when contracts, particularly for ICT services, are paid at certain points in the year and will reflect the full year cost. The function is responsible for the collection of core funding from Council Tax and Non-Domestic Rate payers and there has been a positive start of the year, with income levels ahead of budget for the time of year.

#### 3. Commissioning

At 60.17% against the full year budget, the function's net expenditure for the year is ahead of budget. The function is continuing to work with services to distribute the remaining procurement savings, currently held by the Commissioning function, which means that expenditure to date is greater than the net budget available.

#### 4. Resources

The function has a budget where a significant proportion of costs are recharged to other accounts of the Council and to external customers. The recharges are directly related to the



progress of specific projects in the capital programme and in the normal course of the year recharging tends to be done later in the year. Income as a whole therefore is less than budget at this point in the year however forecasts for the year provide a more positive outcome. The effect of these timing issues means that net expenditure for the year is higher than a half year would suggest.

## 5. Place

### City Growth.

The net expenditure for the year is over budget at 74%, with payment for events being spread unevenly across the year, income from European projects, including the hydrogen bus projects claim income in arrears and there is a substantial timelag between income being received and expenditure being incurred. The Q2 position reflects expenditure but limited income to offset these costs, which will be adjusted later in the year.

### Strategic Place Planning

At 49% against full year budget, the net expenditure is in line with expectations for this time of year. Pressure exists in relation to additional spend for the period from the transport planning unit, however income in building standards is ahead of the budgeted position and staff costs are lower due to vacancies.

## 6. Governance

At 57.08% against the full year budget, the services net expenditure for the year is high because of fees and recharges for legal services still to be recorded later in the year. Higher expenditure levels reflect costs of the European elections in May, which are offset by income that has been received in relation to these costs.

## 7. Integration Joint Board (IJB) / Adult Social Care.

At 50.01% against the full year budget, net expenditure on this function for the year to date is in line with expectations. However, with demand led services there are invariably cost pressures which require to be managed and in particular there are pressures evident in relation to client contributions, commissioned services, out of area placements, and for young people transitioning from children's services with support needs.

## 8. Corporate

Includes the cost of councillors, contingencies, funding to Grampian Valuation Joint Board and the repayment of capital debt. Expenditure is generally in line with budget where expenditure is being incurred, but contingency budgets are held for the purpose of being used if needed and capital debt repayments are lower than had been budgeted following the implementation of the new accounting policy.

## 10. Other Income and Expenditure

Includes interest payable and receivable, income and expenditure from trading operations (car parking, investment property and building services) and income received through council tax, non domestic rates and government grants.

At this stage Non Domestic Rates (NDR) is slightly above budget at 53%, with NDR bills payable by 30 September, income from council tax is 74% of full year budget and well placed for strong collection levels this year, and income from Scottish Government is above budget, which is due to the profiling of Grant and NDR across the year – all of the General Revenue Grant has been paid to the Council in Q2 and day to day cashflow for the Council is now supported by the receipt of NDR, Council Tax and other service income. Redetermination adjustments to the General Revenue Grant will be made in the final two weeks of March 2020.

The Council receives a substantial income from the commercial tenanted non-residential property (TNRP) portfolio. The income to the TNRP portfolio is invoiced regularly but it is not in even quarters as timing depends on each individual leases. Similarly car parking income is dependent on customer usage (which has been strong through the second quarter), the Q2 results record income as it is received.

### **Our Financial Performance : Housing Revenue Account**

- **Performance in Quarter 2**

9. Housing Revenue Account is responsible for the provision of council housing to over 20,000 households with the most significant areas of expenditure being on repairs and maintenance and the servicing of debt incurred to fund capital investment in the housing stock. This is a ring fenced account such that its costs must be met by rental income which at this stage in the year exceeds expenditure incurred. Rental income remains a regular source of funding and the account remains ahead of budget at Q2 because of billing of repair and maintenance in arrears and also lower than budgeted capital financing costs following the implementation of the new accounting policy, approved earlier this year.

### **Our Financial Performance : Full Year Forecasts**

A comprehensive forecast of revenue and capital budget performance for the General Fund, Housing Revenue Account and the Common Good are provided in Appendix 2 to this report.

### **Conclusion**

This is the second quarterly financial performance report being presented to the Committee for consideration of the financial year 2019/20. This report aims to meet the reporting requirements for the London Stock Exchange as well as enhancing financial transparency by providing information in a manner consistent with the Council's Annual Accounts.

At the end of Quarter 2, of the £41.2 million of savings options that were approved in the budget the full value of savings has not yet been achieved, with the actual outcome of changes only becoming evident during the course of the whole year. I have assessed that approximately 75% of the savings have been achieved by the end of the Quarter. There are areas where cost pressure means that alternatives are having to be found to balance the budget and in general this has the impact of seeking to reduce staff costs or expenditure in other areas. One area where the Council has been able to provide certainty has been through reducing the cost of capital financing costs and this will help to offset spend levels in integrated childrens services without immediately having a detriment on other service areas.

Based on the information available the level of savings that were approved as part of the budget are generally progressing well, with the staff costs having reduced and vacancy savings confirmed that indicate 91% of the target has been achieved. It is assumed that ongoing vacancy management and turnover will further reduce the costs to meet the targets during the course of the remainder of the year.

I have assurance in the figures based on a range of actions that are being taken to mitigate the risks to the Council, including finance staff working with and advising all functions of the Council, core expenditure Control Boards, regular finance focused senior management review meetings, CMT stewardship and effective risk management arrangements and the input of the Programme Management Office to support governance arrangements for implementing change.

From a risk management perspective, at the end of the quarter the Council has assessed that it was not necessary for any specific costs to be accounted for in relation to the impact of the UK exit from the EU. Costs that have been incurred are the opportunity costs of staff time on risk management and organisational planning undertaken during the period. Officers recognise the changing situation that exists as the 31 October deadline approaches and are closely monitoring the position through the risk management arrangements.

From a revenue perspective, during the second quarter, a great deal of work has been carried out by staff throughout the Council to ensure that expenditure and income is continually being brought in line with budget over the course of the year. It was essential that progress was made in the first half of the year to achieve much of the savings early and to avoid disproportionate savings targets being imposed later in the year when there are fewer choices that can be made. It is important to note that the savings do need to continue to be achieved across the full year and the impact will continue to be kept under close scrutiny to ensure that action is taken where necessary and to report back to the Committee on any recommendations that are needed to ensure the Council delivers best value and meets its statutory financial obligations this year.

In relation to the capital programme a wide range of projects have progressed towards completion, notably the successful opening of TECA, including P&J Live, Hilton and Aloft hotels, and expenditure has substantially been on projects already in construction, with work starting on Provost Skene's House, Union Terrace Gardens and Housing at Summerhill. Preparatory work and contract finalisation can impact on progress of other projects.

Cashflow for the quarter has been strong, with a large increase in the availability of cash and cash equivalents as at the end of the quarter. This underpinned the strengthening of the balance sheet as at 30 September 2019, and this positive position will be used during the remainder of the year to fund expenditure, as forecast in Appendix 2.

## Movement in Reserves Statement

*This statement shows the movement on the different reserves held by the Council analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves.*

	General Fund	Housing Revenue Account	Statutory and Other Reserves	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000		£'000	£'000	£'000
<b>Balance at 31 March 2019 brought forward</b>	<b>(35,054)</b>	<b>(12,308)</b>	<b>(10,825)</b>	<b>(482)</b>	<b>(58,669)</b>	<b>(1,230,242)</b>	<b>(1,288,911)</b>
<b>Movement in Reserves during 2019/20</b>							
Total Comprehensive Income & Expenditure	(116,979)	(18,454)	0	0	(135,433)	5,665	(129,767)
Adjustments between accounting basis & funding basis under regulations	26,930	15,502	0	0	42,432	(42,432)	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>(90,049)</b>	<b>(2,952)</b>	<b>0</b>		<b>(93,002)</b>	<b>(36,767)</b>	<b>(129,767)</b>
Transfers to/from Earmarked Reserves	3,569	2,952	(856)	0	5,665	(5,665)	(0)
<b>(Increase)/Decrease in Year</b>	<b>(86,480)</b>	<b>0</b>	<b>(856)</b>	<b>0</b>	<b>(87,336)</b>	<b>(42,432)</b>	<b>(129,767)</b>
<b>Balance at 30 September 2019</b>	<b>(121,534)</b>	<b>(12,308)</b>	<b>(11,681)</b>	<b>(482)</b>	<b>(146,006)</b>	<b>(1,272,674)</b>	<b>(1,418,678)</b>

## Expenditure and Funding Analysis

*The Expenditure and Funding Analysis shows how the net expenditure or income is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.*

Quarter 2, 2019/20				
Services	Net Expenditure chargeable to General Fund & Housing Revenue Account	Adjustments between funding & Accounting basis	Net Expenditure in the CIES	Notes
	£'000	£'000	£'000	
Operations	124,818	(13,175)	111,643	1
Customer	20,091	0	20,091	2
Commissioning	3,885	0	3,885	3
Resources	(3,521)	0	(3,521)	4
Place	10,686	0	10,686	5
Governance	1,836	0	1,836	6
Integration Joint Board	44,541	0	44,541	7
Corporate	(1,895)	(6)	(1,901)	8
<b>Net Cost of General Fund Services</b>	<b>200,441</b>	<b>(13,181)</b>	<b>187,261</b>	
Housing Revenue Account	(2,952)	(15,864)	(18,816)	9
<b>Net Cost of Services</b>	<b>197,490</b>	<b>(29,045)</b>	<b>168,444</b>	
Other Income and Expenditure	(290,490)	(13,386)	(303,877)	10
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(93,001)</b>	<b>(42,432)</b>	<b>(135,432)</b>	
Opening General Fund and HRA Balance at 31 March 2019	(47,362)			
(Surplus) or Deficit on General Fund and HRA Balance in Year	(93,001)			
To/From Other Statutory Reserves	6,521			
<b>Closing General Fund and HRA Balance at 30 September 2019</b>	<b>(133,842)</b>			

## Notes

1. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £13.175m accounting adjustment relates to the removal of Annual Service Payments for the 3R's schools and Lochside Academy which for accounting purposes are required to be split into its component parts, payment for services; repayment of capital; and financing costs.
2. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
3. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
4. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.

5. See page 3 for information relating to Net Expenditure chargeable to the General Fund.  
There are no accounting adjustments relating to this service in this quarter.
6. See page 3 for information relating to Net Expenditure chargeable to the General Fund.  
There are no accounting adjustments relating to this service in this quarter.
7. See page 3 for information relating to Net Expenditure chargeable to the General Fund.  
There are no accounting adjustments relating to this service in this quarter.
8. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £0.006m accounting adjustment relates to contributions to Capital from Current Revenue (CFCR).
9. See page 3 for information relating to Net Expenditure chargeable to the Housing Revenue Account. The £15.864m accounting adjustment relates to CFCR.
10. See page 4 for information relating to Net Expenditure chargeable to the General Fund. The £13.386m adjustment comprises the following three elements, which realign costs from other parts of the budget:
  - £8.944m is the element of the 3R's and Lochside Annual Service Payments which is reallocated as per note 1 above to bring together financing costs which flow into the Financing and Investment Income and Expenditure line in the CIES below.
  - (£0.396)m that is the allocation of the Marischal Square finance lease payment.
  - (£21.934)m that is the allocation of capital grant income which flows into the Taxation and Non Specific Grant Income line in the CIES below.

## Comprehensive Income and Expenditure Statement

*This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards (IFRS).*

Services	Quarter 2, 2019/20			Notes
	Gross Expenditure	Gross Income	Net Expenditure	
	£'000	£'000	£'000	
Operations	149,841	(38,198)	111,643	
Customer	52,818	(32,727)	20,091	
Commissioning	6,383	(2,497)	3,885	
Resources	51,137	(54,658)	(3,521)	
Place	11,712	(1,025)	10,686	
Governance	2,850	(1,014)	1,836	
Integration Joint Board	72,038	(27,497)	44,541	
Corporate	(1,341)	(560)	(1,901)	
<b>Cost of General Fund Services</b>	<b>345,436</b>	<b>(158,176)</b>	<b>187,261</b>	
Housing Revenue Account	30,506	(49,322)	(18,816)	
<b>Cost of Services</b>	<b>375,942</b>	<b>(207,498)</b>	<b>168,444</b>	
Other Operating Expenditure			0	1
Financing and Investment Income and Expenditure	31,946	(23,570)	8,376	2
Taxation and Non Specific Grant Income	0	(312,253)	(312,253)	3
<b>(Surplus) or Deficit on Provision of Services</b>	<b>407,889</b>	<b>(543,321)</b>	<b>(135,432)</b>	
(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			0	4
Impairment losses on non current assets charged to the Revaluation Reserve			0	4
(Surplus)/deficit on revaluation of available for sale financial assets			0	4
Actuarial (gains)/losses on pension losses/liabilities			0	4
Other (gains)/losses			5,665	4
<b>Other Comprehensive Income and Expenditure</b>			<b>5,665</b>	
<b>Total Comprehensive Income and Expenditure</b>			<b>(129,766)</b>	

### Notes

1. This line will be used to reflect gains or losses on the disposal of assets which take place during the year.
2. This largely reflects trading income and interest payable and receivable.
3. Income in relation to Council Tax, Non-Domestic Rates collection and Scottish Government General Revenue and Capital Grant.
4. These lines are predominantly used for statutory accounting adjustments.

## Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council.  
The net assets of the Council are matched by the reserves held by the Council.

31 March 2019 £'000		30 September 2019 £'000	Note
2,438,882	Property, Plant & Equipment	2,564,039	1
197,691	Heritage Assets	197,691	1
145,832	Investment Property	145,832	1
17,638	Long Term Investments	17,638	2
7,592	Long Term Debtors	8,336	3
<b>2,807,636</b>	<b>Long Term Assets</b>	<b>2,933,536</b>	
70,520	Cash and Cash Equivalents	224,998	4
45,213	Short Term Investments	56,046	5
92,158	Short Term Debtors	84,166	6
1,832	Inventories	16,797	7
5,693	Assets Held for Sale	5,693	8
<b>215,417</b>	<b>Current Assets</b>	<b>387,700</b>	
(197,228)	Short Term Borrowing	(290,316)	9
(80,860)	Short Term Creditors	(69,191)	10
(5,259)	Short Term Provisions	(3,298)	11
(4,230)	PPP Short Term Liabilities	(3,057)	12
(5,607)	Accumulated Absences Account	(5,607)	13
(2,989)	Grants Receipts in Advance - Revenue	(479)	14
(13,091)	Grants Receipts in Advance - Capital	(25,815)	14
<b>(309,264)</b>	<b>Current Liabilities</b>	<b>(397,763)</b>	
(895,954)	Long Term Borrowing	(979,355)	15
(58,029)	Finance Lease	(57,602)	16
(13)	Long Term Creditors	(13)	17
(551)	Long Term Provisions	(551)	11
(138,223)	PPP Long Term Liabilities	(135,165)	12
(332,108)	Pension Liabilities	(332,108)	18
<b>(1,424,877)</b>	<b>Long Term Liabilities</b>	<b>(1,504,794)</b>	
<b>1,288,911</b>	<b>Net Assets</b>	<b>1,418,678</b>	
	Usable Reserves:		
(35,054)	General Fund Balance	(121,534)	19
(12,308)	Housing Revenue Account	(12,308)	19
(10,825)	Statutory and Other Reserves	(11,681)	19
(1,230,724)	Unusable Reserves	(1,273,156)	20
<b>(1,288,911)</b>	<b>Total Reserves</b>	<b>(1,418,678)</b>	



## Balance Sheet Notes

1. Depreciation is calculated annually and therefore no depreciation has been applied in Quarter 2. Capital expenditure to the end of Quarter 2 totaling £125.156m has been applied to Property, Plant & Equipment (this includes £100.950m of general fund expenditure and £24.206m of HRA expenditure). Disposals, revaluations and transfers have not been accounted for in Quarter 2.
2. Long Term Investments comprises the council's interest in Aberdeen Sports Village. These will be revalued and updated in Quarter 4.
3. Long term debtors reflects the movement based on transactions for the period.
4. Cash and cash equivalents include short term investments of £222.504m (because they can be called up at short notice i.e. 0 to 30 days) and developers contributions of £12.305m. See the cash flow statement for an analysis of how this is used.
5. Short term investments have been adjusted as described in note 4.
6. Short term debtors reflects the movement based on transactions for the period.
7. Inventories are adjusted at year end for inter-related account balances. This adjustment has not been made in Quarter 2 but will be included in future quarters.
8. Assets held for sale will be reviewed in Quarter 4.
9. Short term borrowing reflects the current position based on transactions for the period.
10. Short term creditors reflects the current position based on transactions for the period.
11. Short term provisions reflects the current position with an adjustment to split this total into long and short term provisions based on year end figures. This split will be updated in future quarters.
12. PPP short and long term liabilities has been adjusted to reflect the projected position at March 2020.
13. The accumulated absences account is reviewed annually and will therefore be updated in Quarter 4.
14. The grants received in advance totals reflect the position at the end of Quarter 2.
15. Long term borrowing reflects the current position based on transactions for the period.
16. Finance Lease reflects the closing position as at March 2020.

17. Long term creditors reflects the current position based on transactions for the period.
18. Pension liabilities are only reviewed annually and will therefore be updated in Quarter 4.
19. Usable Reserves reflects the current position based on transactions for the period. Usable Reserves includes uncommitted reserves and earmarked reserves, and due to the positive cashflow have increased to a level that is higher than forecast for the end of the year, the cashflow being used to fund expenditure that will be incurred in the second half of the year.
20. Unusable reserves have been adjusted for statutory accounting adjustments as detailed above.

## **Contingent Liabilities**

In addition to amounts recognised on the Balance Sheet, the Council is aware of the following contingent liabilities at 31 March 2019 and recognised them within the 2018/19 Annual Accounts:

### **Guarantees**

#### **Aberdeen Science Centre (formerly Satrosphere)**

The Council has agreed to provide a guarantee to the Bank of Scotland for the sum of £127,654 in support of an overdraft facility and card guarantee facility until 31 March 2021.

#### **Transition Extreme Sports Ltd**

The Council has agreed to provide a guarantee to the Bank of Scotland in respect of a maximum overdraft facility of £250,000 until 31 December 2019. A report is being prepared to be considered at the next meeting of City Growth & Resources Committee.

#### **Sport Aberdeen**

The Council agreed to provide a bank guarantee to Sport Aberdeen to a maximum of £5 million over a 5 year period for investment in Council leisure facilities, as approved at the 7 June 2016 Finance, Policy and Resources Committee. A guarantee for a revolving credit facility for £1.4m is also in place.

#### **External Organisations - Guarantor in relation to North East Scotland Pension Fund (NESPF)**

As the administering authority, the Council may admit a body to the Pension Fund as an 'admitted body' provided (i) the organisation can confirm they have sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest; and (ii) the Scheme employer is prepared to act as guarantor in the event the admitted body should cease to exist. If this situation was to occur and staff made redundant the staff over 50 years old would become entitled to immediate payment of their pension benefits. The Council has agreed a number of such guarantees to organisations that include Aberdeen Sports Village, Sport Aberdeen, Aberdeen Performing Arts, Aberdeen International Youth Festival, Aberdeen Heat and Power, Bon Accord Support Services and Bon Accord Care Ltd. The potential values guaranteed are subject to a range of actuarial assumptions.

#### **SEEMIS Group LLP**

The Council has agreed to fund any additional pension liability payments arising from its membership of the SEEMIS organisation (the provider of our schools' Management Information System). To date there has been no call on the guarantee.

#### **Integration Joint Board (IJB)**

The IJB is responsible for the strategic planning of the functions delegated to it by Aberdeen City Council and NHS Grampian. The Aberdeen City IJB Integration Scheme provides the framework in which the IJB operates including information on funding and what should happen if the IJB is projecting to overspend its budget at the year-end. Whilst steps will be taken to

address this (through a Recovery Plan), ultimately the parties to the arrangement may be potentially liable should the IJB overspend.

## **Contractual**

### **Waste Disposal**

The Council has a long term contract with an external contractor for the disposal of all relevant waste arising in the City and the operation and maintenance of waste transfer stations, recycling facilities and landfill sites. The contract commenced in September 2000 and is due to run for 25 years.

The Council is lead partner in a three-authority project with Aberdeenshire and Moray Councils to procure an energy from waste facility which will deal with all residual waste from the three authorities. The contract commenced on 8 August 2019 with the facility expected to come on line in summer 2022, and will run for 20 years.

### **Landfill Allowance Scheme (LAS)**

The Scottish Government had previously introduced a scheme under which Local Authorities were to be penalised for exceeding landfill tonnage targets. The Landfill Allowance Scheme in Scotland is currently suspended and it is expected that the Waste (Scotland) Regulations 2012 will take over the requirement for the control of landfilling biodegradable municipal waste. However, until such a repeal is formalised there remains a potential liability on the Council.

### **Section 75 agreements**

Section 75 agreements (developer obligations) are frequently sought by the Council in relation to the award of planning permission. The Supreme Court's judgement in relation to the Strategic Transport Fund (STF), which was funded through developer obligations, has significant implications for the Council, as there are several large scale projects in development which had expected to rely on STF funding. Delivery of these projects is now at risk unless an alternative funding solution can be identified.

### **Our Generation – Solar Panels**

A contractual dispute exists in relation to this contract which may give rise to a future financial liability. On 23 July 2019 the Council successfully defended an appeal by Our Generation to the Court of Session on the findings of the original judgement. A possible appeal to the Supreme Court could arise but this is in the hands of Our Generation.

## **Legal**

### **Scottish Child Abuse Inquiry**

The Scottish Child Abuse Inquiry is a national enquiry which was set up on 1 October 2015. The Council recognises a potential liability in respect of claims from this Inquiry. Several claims which have been received have yet to be assessed and their value is unknown and unquantifiable at this time. To date one court action has been raised against the Council, the value at this time is uncertain.

## **Multi Storey Blocks**

In response to the Grenfell Tower incident, Building Regulation Fire Safety has been reviewed by the Scottish Government, and an updated Technical Handbook published. The provision of automatic fire suppression systems has been deferred until 2021 to align with a government commitment to introduce this within new build social housing. The cost impact of these changes is not quantified at this time.

## **Public Sector Pension Reform – McLeod Judgement**

As a result of the McLeod judgement ruling in England and Wales in June 2019, regarding transitional provisions in public sector pension schemes being unlawfully age discriminatory, it is considered that this is likely to have implications for the Scottish Local Government Pension Scheme (LGPS).

The Government Actuaries Department (GAD) was commissioned to identify the potential impact of the McLeod/Sargeant ruling, and have prepared an assessment of the potential financial impact on the England and Wales LGPS scheme. GAD have quoted that the impact on scheme liabilities of active members is in the region of 2.89%. This would have an impact of £18.8m increase on the Council's current gross pension liabilities.

This value has not been accrued due to the uncertainty on the outcome of the government appeal against the judgement, the remedy to be agreed, and the extent to which the judgement impacts on the LGPS in Scotland.

## Cash Flow Statement

*The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.*

	<b>Quarter 2 2019/20</b>
	<b>£'000</b>
Net Surplus or (Deficit) on the provision of services	135,432
Adjust net surplus or deficit on the provision of services for non cash movements	(38,891)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(21,934)
Net cash flows from Operating Activities	74,607
Net cash flows from Investing Activities	(92,389)
Net cash flows from Financing Activities	172,259
Net increase or decrease in cash and cash equivalents	154,477
Cash and cash equivalents at the beginning of the reporting period	70,520
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>224,997</b>
Cash held by the Authority	39
Bank current accounts	224,959
	<b>224,998</b>



**PROJECTED FINANCIAL POSITION  
FOR THE YEAR 2019/20**

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## MANAGEMENT COMMENTARY

This is the second quarter in the year for the Council's finances, following approval of the budgets in March 2019. Appendix 1 has dealt with the positive position the Council is in at the end of the second quarter, the forecast for the year is built on the information that was available at that time. Core income is ahead of budget at the end of the quarter and it should be noted that this income will be used during the remainder of the year to fund forecast expenditure.

The full year budgets reflected in the table below differ from those set by Council in March 2019 for a number of reasons. This is normal practice during the year as virements are identified and budget responsibilities change.

In common with recent years there are pressures on the organisation that emerge during the year and to which the Council is responding. The financial position is kept under regular review in relation to progress and forecasting and the conclusions included in Appendix 1 describe the overarching controls that the Council has in place to manage the financial position. There is a commitment from Senior Management to pursue options to mitigate these cost pressures and to work with the Chief Officer – Finance to ensure the overall agreed budget is adhered to.

### General Fund

With reference to the table below, key areas of the budget that the Council is managing are as follows:

1. The main areas of pressure within Operations are:
  - Demand for and supply of foster care, the cost being higher than budgeted due to the inability to recruit city foster carers. This is a national problem, with a high number of placements now being provided by external agencies that charge higher fees as part of a national contract. Work continues to stimulate an increase in the number of City Council foster carers;
  - While demand for work continues to be high for building services the shortage of resources is impacting on the budgeted surplus.
  - Fleet Services due to maintenance costs of older vehicles ahead of the introduction of new vehicles.
  
2. The main areas of pressure within Customer are:
  - The decommissioning of private sector leasing contracts and the associated maintenance of the flats is resulting in higher expenditure this year for financial benefit in future years. The efficiencies that have been achieved in supporting temporary accommodation has led to lower fees being applied and reduced income through housing benefits;
  - Costs of the SWAN network to schools which are providing increased connectivity to schools within the City;
  - The impact of decreased demand for design services is forecast to result in lower income levels this year.

3. The main areas of pressure within Commissioning are:

- An increased income target for shared services may not be achieved and other ways to achieve this saving are being considered;
- Ambitious targets were set to secure advertising income over the past two years and demand from new customers is still required to achieve that level of income in the current year.

4. The main areas of pressure within Resources are:

- Commercial property trading account income targets are being closely monitored to ensure delivery on budget.

5. The main areas of pressure within Place are:

City Growth

- Income from catering services provided by museums and galleries has been forecast on a prudent basis and this will be revised when all facilities are operational later in the year.

Strategic Place Planning are:

- The level of demand for education and social work transport in the current year,
- Low demand from private developers around road development works is resulting in lower than anticipated levels of Income.

6. The main areas of pressure within Governance are:

- A risk that charges for legal support do not match budgeted levels, which depend on in-year activity levels.
- Additional costs of by-elections currently in progress

7. The main areas of pressure within Integrated Joint Board/Adult Social Care are:

Increased demand for commissioned services across all client groups;

- Costs related to children transitioning from Children's services to adult disabilities due to an increase in both number and cost of packages and more clients transitioning with increased medical needs;
- An increase in staffing costs;
- A rise in need for the number of clients receiving care from out of area placements,

There is no risk to demand pressures in the IJB having an impact on the Council in 2019/20 due to the financial modelling and level of resilience at Board level;

8. Across the whole of the Council the planned reduction in the number of posts that are affordable is being managed through voluntary and natural processes, i.e. no compulsory redundancy. This means that there is expected to be continued reduction in the total workforce for the remaining 6 months of the year. The corporate saving for a reduced workforce is captured in the "Corporate Budgets". The full value of the staff savings is forecast to be achieved during the year.

Contingencies also holds the in-year revenue contingency for the General Fund and the forecast includes the use of that contingency later in the year. The actual position will depend on future events arising from the risk registers and where identified contingent liabilities becoming more certain (see Appendix 1). It means the Council is resilient to changes that might happen in the future that have not been able to be quantified financially. An example of a reason for holding a contingency is winter maintenance and prolonged adverse winter weather that increases costs.

9. The bad debt provision has been updated to take account of latest data and is under regular review. This budget sits within Council Expenses.
10. The Joint Boards budget and outturn is based on the amount requisitioned by Grampian Valuation Joint Board and is on budget.
11. Miscellaneous Services includes capital financing costs, the cost of repaying the borrowing received in the past for General Fund Capital Programme investment. Capital Financing Costs is the most significant budget within Miscellaneous Services, and includes the impact of accounting for loans fund repayments on a prudent basis, approved by the Audit Risk and Scrutiny Committee in April 2019. A prudent and cautious approach has been taken to forecasting the level of income from the TECA site, and as it opens in Quarter 2 the future reporting (from Q3 onwards) will begin to be able to include actual in-year performance.
12. The Non-Domestic Rates figure is set by the Scottish Government as part of its overall funding support package rather than the amount billed and receivable by the Council. The national transitional relief scheme slightly modified continues in 2019/20 with fresh applications required from ratepayers wishing relief under this scheme.
13. The General Revenue Grant is set by the Scottish Government as part of its funding support package. This may change during the year as the government announces funding redeterminations. The Council has already anticipated funding for Teachers' additional pay award from April 2019 and teacher's employers pension contribution increase, from September 2019. The level of funding to compensate for the pension contribution increase that the Council is going to incur is lower than had been assumed in the budget by £0.7m.
14. Council Tax income is forecast be on budget for the year
15. The approved budget made a contribution to the uncommitted General Fund reserve of £900k, and also used £1,231k of previously earmarked reserves. The net effect was a contribution from reserves to balance the budget of £331k. It is forecast that this contribution from reserves will be required in 2019/20 to balance the outturn position.

### **Housing Revenue Account**

16. There are a number of small variances within the HRA budget, which will be managed during the year.

### **Balancing the Budget through Controls and Monitoring Structures**

Specific actions to ensure a balanced budget include

- effective management of turnover of staff and vacancies and an underlying assumption that the overall cost of staff will continue to reduce during the remainder of the year. Oversight by the Establishment Control Board on a regular basis.
- A detailed review of the out of authority placements for children by the Chief Officer – Integrated Children’s Services is continuing.
- Specific work in relation to the Service Income policy to ensure full cost recovery is achieved from a range of services that the Council delivers, such as support services, housing services, accommodation and building services.
- The voluntary severance / early retirement scheme remains open and applications are considered as they are received.

In order to ensure tight controls are in place over expenditure, management have created the following control boards, through which requests to spend must be cleared:

The Establishment Control Board covers the staffing Establishment and is co-chaired by the Chief Officers for Organisational Development and Finance with advice provided by the Trade Unions;

The Demand Management Control Board captures the commissioning and procurement intentions as they arise and provides an environment for demand-based challenge – this is co-chaired by the Chief Officers for Early Intervention & Community Empowerment and Business Intelligence & Performance Management.

These Control Boards focus on revenue while the Capital Board oversees the progress and emerging aspects of capital planning and delivery, but also connects to the asset elements of the revenue budget and capital financing requirements.

The Transformation Management Group established a Finance sub-group which meets weekly, chaired by the Chief Officer - Finance and brings together the emerging and escalated issues from overall financial performance. This sub-group is made up of the Directors, and the Chief Officers for Governance, Organisational Development and Business Intelligence & Performance Management and is the forum to enable an overarching look at Council-wide financial performance, agree on actions and provide assurance.

### **Balancing the Budget through the monitoring and control of risks.**

Risks are reviewed on a regular basis at a strategic level by the Corporate Management Team on a monthly basis and at an operational level by Chief officers and their teams on a daily basis. , As referred to in Appendix 1 the risks around the UK exit from the EU has to date consumed staff time rather than incurring any additional costs. For the purposes of forecasting for the whole year there has been no identified need to make a specific financial provision in the forecast for the likelihood of costs associated with Brexit but this will be kept under review by the Corporate Management Team.

Contingent Liabilities are used to try and capture potential liabilities which could result in costs being incurred. As part of our budget process, we identified a number of contingent liabilities within the budget pack presented to Council and the Corporate Management Team continues to monitor the status of these. From a review of the contingent liabilities, listed in Appendix 1, has not established any significant shift in certainty or in the Council’s ability to quantify the financial exposure. On that basis there is no adjustment included in the forecasts for the year, they will continue to be reviewed quarterly and any change reported as appropriate.

## **Conclusion**

On the basis of the information available, and set out in this report, the forecast for the overall position of both the General Fund and the Housing Revenue Account is a balanced one, and this is captured in the tables set out below.

### General Fund Financial Reporting Summary 2019/2020 - Quarter 2

As at 30 September 2019	Budget	Outturn	Variance from Budget		Notes
	2019/2020	2019/2020 Quarter 2	£'000	%	
	£'000	£'000	£'000	%	
Operations	260,570	262,688	2,117	0.8	1
Customer	38,036	37,280	(755)	(2.0)	2
Commissioning	6,457	8,156	1,699	26.3	3
Resources	830	1,248	418	50.3	4
Place	17,052	17,915	863	5.1	5
Governance	3,216	3,367	150	4.7	6
Integrated Joint Board	89,061	89,061	(0)	(0.0)	7
<b>Total Functions Budget</b>	<b>415,223</b>	<b>419,715</b>	<b>4,492</b>	<b>1.1</b>	
Contingencies	(15,865)	(17,550)	(1,685)	10.6	8
Council Expenses	2,861	3,750	889	31.1	9
Joint Boards	1,686	1,741	55	3.3	10
Miscellaneous Services	47,618	44,511	(3,107)	(6.5)	11
<b>Total Corporate Budgets</b>	<b>36,300</b>	<b>32,453</b>	<b>(3,848)</b>	<b>(10.6)</b>	
Non Domestic Rates	(258,560)	(258,560)	0	0.0	12
General Revenue Grant	(70,116)	(70,760)	(644)	0.9	13
<b>Government Support</b>	<b>(328,676)</b>	<b>(329,320)</b>	<b>(644)</b>	<b>0.2</b>	
Council Tax	(122,516)	(122,516)	0	0.0	14
<b>Local Taxation</b>	<b>(122,516)</b>	<b>(122,516)</b>	<b>0</b>	<b>0.0</b>	
Contribution from Reserves	(331)	(331)	0	0.0	15
<b>Contribution from Reserves</b>	<b>(331)</b>	<b>(331)</b>	<b>0</b>	<b>0.0</b>	
<b>Deficit/(Surplus)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	

### Housing Revenue Account Summary 2019/2020 - Quarter 2

Deficit/(Surplus)	(500)	(500)	0	(0)	16
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## General Fund Capital Programme

As at Period 6 2019/20	Gross Figures for 2019/20			
	Revised Budget	Expenditure to Date	Forecast Outturn	Variance from Revised Budget
	£'000	£'000	£'000	£'000
AECC Programme Board	95,964	64,908	92,044	(3,920)
Asset Management Programme Board	31,228	4,932	13,817	(17,411)
Asset Management Programme Board Rolling Programmes	27,721	9,791	21,754	(5,967)
City Centre Programme Board	24,343	3,291	15,466	(8,877)
Energy Programme Board	31,817	12,104	27,567	(4,250)
Housing and Communities Programme Board	3,192	711	1,593	(1,599)
Housing and Communities Programme Board Rolling Programmes	1,006	327	750	(256)
Transportation Programme Board	25,630	4,116	10,509	(15,121)
Transportation Programme Board Rolling Programmes	3,307	0	1,000	(2,307)
Strategic Asset & Capital Plan Board	14,342	837	9,008	(5,334)
Developer Obligation Projects & Asset Disposals	0	894	977	977
<b>Total Expenditure</b>	<b>258,550</b>	<b>101,911</b>	<b>194,484</b>	<b>(64,065)</b>
<b>Capital Funding:</b>				
Income for Specific Projects	(67,653)	(7,109)	(24,574)	43,079
Developer Contributions	0	(809)	(977)	(977)
Capital Grant	(27,671)	(13,974)	(27,671)	0
Other Income e.g. Borrowing	(163,226)	(80,018)	(141,262)	21,964
<b>Total Income</b>	<b>(258,550)</b>	<b>(101,911)</b>	<b>(194,484)</b>	<b>64,066</b>

Only one new project has been added to the programme during Quarter 2, following the Council's successful application to the Scottish Government for Low Emissions Zone funding. The award of £195,000 has been added to the Transportation programme.

The financial profile for the TECA project has been reviewed to recognise the overall gross expenditure for the project, the net funding for which was within the financial commitment approved by the Council.

Project updates are provided in detail at the Capital Programme Committee, the latest high-level summary is included below on the key investments:

- AECC Programme Board: Opening on time, a number of successful events, including Offshore Europe 2019, have taken place following handover of The Event Complex Aberdeen (TECA) to the Council, incorporating P&J Live, the subterranean space and the Hilton and Aloft hotels. The Council has appointed operators for the Event Complex and hotels, with whom regular review meetings are being undertaken. The Anaerobic Digestion Gas to Grid Facility (AD Plant) is the only remaining piece of infrastructure, and is due to be completed in December 2019 to ensure commissioning and gas injection into the grid by the end of January 2020.
- Asset Management Programme: design works have continued on the new Schools programme and for the advancement of the Early Learning and Childcare (ELC) programme. The tender exercise for the refurbishment of Kingsfield Children's Home requires to be prioritised and the Committee is asked to delegate this authority to officers to avoid further delay
- City Centre Masterplan Programme Board: Procurement processes have continued for key projects, including Union Terrace Gardens and Provost Skene House with contractors now on site for both projects, and further works proceeding on the Broad

Street and Schoolhill public realm projects. The Art Gallery project is on track to re-open the refurbished building to the public on Saturday 2 November, and the installation of artefacts is progressing well.

- Energy Programme Board: The main contract for the NESS Energy from Waste facility was signed by the Council on 9 August, and all pre-commencement planning conditions have been successfully discharged, allowing the contractor to begin works on site at the end of September. The Council is in discussion with the Administrators of Wrightbus, the supplier of the Council's new fleet of hydrogen buses, and monitoring developments closely.
- Housing and Communities Programme Board: The new and refurbished community facilities at Tillydrone Hub and Station House Media Unit have moved into operational phases with their management teams.
- Transportation Programme Board: Officers are now prioritising the progress of the South College Street project, following the decision of this committee in September, in order to advance the wider portfolio of schemes that relate to the City Centre and the Roads Hierarchy report approved by this committee in June.

## Conclusion

Expenditure on key projects that are in the delivery phase and those due to be completed is continuing, with the forecasts for the year take account of spending patterns to the end of Quarter 2. As further contracts are let and projects progress during the year there will be increased certainty about the financial position of the capital programme. The level of expenditure will determine the overall level of borrowing required.

In general, the financial profiling of the programmes noted above is due to previously reported issues on specific projects and will provide assurance to the Council that borrowing levels are being robustly forecast based on information available at present. On-going scrutiny and monitoring of specific projects will continue to be made by the Capital Programme Committee.



## Housing Capital Programme

Housing Capital Programmes	Approved Budget	Expenditure to date	Forecast Expenditure
As at 30 September 2019	£'000	£'000	£'000
Compliant with the tolerable standard	2,527	253	2,527
Free from Serious Disrepair	9,502	2,620	9,502
Energy Efficient	8,733	4,389	8,733
Modern Facilities & Services	2,589	189	2,589
Healthy, Safe and Secure	6,609	1,735	6,609
<i>Non Scottish Housing Quality Standards</i>			
Community Plan and Local Outcome Improvement Plan	5,800	5,180	5,800
Service Expenditure	4,226	659	4,226
2000 New Homes Programme	11,172	8,216	11,172
	<b>51,158</b>	<b>23,241</b>	<b>51,158</b>
less 11% slippage	(4,398)		(4,398)
<b>Net Programme</b>	<b>46,760</b>	<b>23,241</b>	<b>46,760</b>
<b>Capital Funding</b>			
Borrowing	(20,586)	0	(20,586)
Capital Funded from Current Revenue	(26,174)	(23,241)	(26,174)
<b>Total</b>	<b>(46,760)</b>	<b>(23,241)</b>	<b>(46,760)</b>

The housing capital expenditure budget of £51.2M set in March 2019 assumes that a level of slippage will occur across projects and allows for changes that happen when timescales have to be altered, contractors are not available or delayed, planning or legal issues might arise. Forecast expenditure, currently in line with the funded budget, is based on spend to date on current contracts. Main underspend is within Free from Serious Disrepair and relates to reduced spend on structural repairs on the Multi Storeys which has been delayed due to lack of agreement from owners.

The inclusion of the 2,000 new homes programme begins to capture the costs associated with the different methods of delivering the 2,000 homes, which will include developer led projects such as the Wellheads site in Dyce and the Council led projects such as Summerhill. As sites are signed off these will be added to the programme during the year and incorporated into the 5-year capital programme.

Approval is sought from Committee for the following virements.

### Increases

£500,000 for Upgrading multi storey flat roofs as a result of additional projects.

£240,000 for Energy Efficiency – Sheltered Housing in order to urgently upgrade boilers at three sheltered blocks identified after Housing Capital budget was initially prepared.

£180,000 for Smoke Detectors in Communal Areas for essential works to upgrade smoke detectors in multi storey stock to triple sensor operation to combat number of false call outs to Scottish Fire & Rescue Service.

### **Reductions**

Achieving agreement from owner occupiers in a range of Council housing settings is leading to delays to certain works and as a result it is forecast that expenditure will be lower in the following areas of work during 2019/20:

£200,000	Upgrading of Flat Roofs
£220,000	Solid Wall Insulation
£500,000	Cyclical Maintenance

### **Conclusion**

The housing capital programme will deliver significant improvements across the housing estate over the course of the year. At present, based on progress of the programme and expenditure levels to date, the forecast is that the slippage anticipated in the budget will arise.

Acceptance of new homes projects are being added to the overall capital programme as business cases are signed off and contracts are signed, and as a result the programme will grow during the year.

## COMMON GOOD

As at September 2019	Full Year Budget 2019/20	Forecast Outturn 2019/20	Variance from Budget
	£'000	£'000	£'000
Recurring Expenditure	2,844	2,844	0
Recurring Income	(3,678)	(3,678)	0
<b>Budget After Recurring Items</b>	<b>(834)</b>	<b>(834)</b>	<b>0</b>
Non Recurring Expenditure	3,246	3,246	0
Non Recurring Income	0	0	0
<b>Net Expenditure</b>	<b>2,412</b>	<b>2,412</b>	<b>0</b>
Amounts required for increase in cash balances in line with inflation	369	369	
<b>Revised Net Expenditure</b>	<b>2,781</b>	<b>2,781</b>	
<b>Cash Balances as at 1 April 2019</b>	<b>(29,729)</b>	<b>(29,729)</b>	
<b>Estimated Cash Balances as at 31 March 2020</b>	<b>(26,578)</b>	<b>(26,578)</b>	
<b>Calculated Minimum cash balance requirement as at 31 March 2020</b>	<b>(26,044)</b>	<b>(26,044)</b>	

The Common Good, based on spending to the end of Quarter 2, is forecast to operate to budget.

It should be noted that the Council agreed, 23 August 2017, that an allocation of up to £1million capital funding for the proposed redevelopment of Aberdeen Science Centre, to be phased over financial years 2018/19 and 2019/20, with this being subject to the exploration of other funding sources thereby reducing the amount required from the Council, and with delegated authority to the Head of Legal and Democratic Services, in consultation with the Head of Finance to agree the terms associated with the funding.

A funding agreement was put in place in relation to this approval. It is expected that a sum of approximately £900k will be drawn down by the Aberdeen Science Centre during 2019/20. This will have the impact of reducing cash balances to fund the payment.

### Conclusion

The Common Good, through delivering on budget and meeting its existing commitments for the year, will retain cash balances in line with cash requirements that have been calculated as necessary at the end of the year.

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**COMMON GOOD  
FINANCIAL STATEMENT  
FOR THE PERIOD ENDING  
30 SEPTEMBER 2019**

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## Common Good

The Common Good stands separate from other accounts and funds of the Council, and could be said to originate in the grant of freedom lands by King Robert the Bruce in 1319. The Common Good is corporate property and must be applied for the benefit of the community as the Council thinks fit. It is invested in land and buildings, such as industrial estates and farms, with any surplus being placed on cash deposit with other local authorities, building societies and the Council's Loans Fund.

### Movement in Reserves Statement

	Common Good Fund £'000	Reserves Fund £'000	Total Common Good £'000
<b>Balance at 31 March 2019</b>	(120,479)	(68)	(120,547)
<b>Movement in Reserves during 2019/20</b>			0
(Surplus) or Deficit on provision of services	871	0	871
<b>Total Comprehensive Expenditure and Income</b>	<b>871</b>	<b>0</b>	<b>871</b>
<b>Balance at 30 September 2019</b>	<b>(119,608)</b>	<b>(68)</b>	<b>(119,676)</b>

### Comprehensive Income and Expenditure Statement

	Quarter 2, 2019/20			
	Gross Expenditure £'000	Gross Income £'000	Net (Income) Expenditure £'000	Notes
Administration Costs	0		0	
Donations, Grants, Contributions etc.	188		188	
Civic Hospitality	53		53	
Civic Expenditure			0	
Funding of International Budget	15		15	
Christmas Illuminations & Festivities	0		0	
Civic Administration Unit	69		69	
Other Projects	38		38	
Miscellaneous Expenditure	98		98	
Youth Activity Funding	0		0	
Specific Projects	1,644		1,644	
Duthie Park HLF	0		0	
<b>Cost Of Services</b>	<b>2,104</b>	<b>0</b>	<b>2,104</b>	1
Other Operating Expenditure			0	2
Financing and Investment Income and Expenditure			(1,233)	3
<b>(Surplus) or Deficit on Provision of Services</b>			<b>871</b>	
(Surplus) or Deficit on revaluation of investment property				4
<b>Total Comprehensive Income and Expenditure</b>			<b>871</b>	

## Notes

1. This is project expenditure to 30 September 2019.
2. This reflects any gains or losses on the disposal of assets during the year. Disposals will be accounted for at year end.
3. This reflects income receivable from investment land and properties net of associated expenditure.
4. The revaluation of investment property will be undertaken in Quarter 4.

## Balance Sheet

31 March 2019 £'000		30 September 2019 £'000	Notes
90,818	Investment Property	90,818	1
<b>90,818</b>	<b>Long Term Assets</b>	<b>90,818</b>	
28,744	Investments in Aberdeen City Council Loans Fund	30,693	2
0	Investment Property Held for Sale	0	3
1,366	Short Term Debtors	(1,518)	4
<b>30,110</b>	<b>Current Assets</b>	<b>29,176</b>	
(381)	Short Term Creditors	(317)	5
<b>(381)</b>	<b>Current Liabilities</b>	<b>(317)</b>	
<b>120,548</b>	<b>Net Assets</b>	<b>119,677</b>	
120,480	Common Good Fund	119,609	6
68	Reserve Fund	68	6
<b>120,548</b>	<b>Total Reserves</b>	<b>119,677</b>	

## Notes

1. The revaluation of investment property will be undertaken in Quarter 4, at which time this figure will be updated.
2. Reflects current cash balances held following transactions to 30 September 2019.
3. Will be reviewed and updated accordingly in Quarter 4.
4. Based on transactions to 30 September 2019.
5. Based on transactions to 30 September 2019.
6. Reflects the accounting value of the funds, based on transactions to 30 September 2019. This includes Earmarked Reserves of £266k.





**GROUP ENTITIES  
PROJECTED FINANCIAL  
POSITION FOR THE YEAR 2019/20**

Aberdeen City Council holds a financial interest in a number of Subsidiaries, Associates and Joint Ventures. The most significant of these are included in the Council's Group Accounts.

The table below outlines the entities to be consolidated into the Council's Group Accounts, and details the Council's share of "ownership" of each of the entities.

For the Financial Year 2019/20	ACC Control	ACC Commitment to meet accumulated deficits	Annual Turnover
	%	%	£m
<b>Subsidiaries</b>			
Common Good	100	100	4
Trust Funds	100	100	0
Sport Aberdeen Limited	100	100	14
Bon Accord Care Limited	100	100	24
Bon Accord Support Services Limited	100	100	30
<b>Joint Ventures</b>			
Aberdeen Sports Village Limited	50	50	6
Aberdeen City Integration Joint Board	50	50	313
<b>Associates</b>			
Grampian Valuation Joint Board	39	39	5

The Council has agreed to include information only when it has been reported through a group entities governance structure.

For the Financial Year 2019/20	Reporting Date	Surplus/(deficit) attributable to the Council at Reporting date	Forecast Surplus/(Deficit)	Comment
		£'000	£'000	
<b>Subsidiaries</b>				
Common Good	30.09.19	(871)	-	Break even position forecast
Trust Funds	-	-	-	Information available at 31.03.20
Sport Aberdeen Limited	31.08.19	380	0	Break even position forecast
Bon Accord Care Limited and Bon Accord Support Services Ltd	30.09.19	(30)	0	Break even position forecast
<b>Joint Ventures</b>				
Aberdeen Sports Village Limited	28.02.2019	(500)	0	Forecast not yet available
Aberdeen City Integration Joint Board		0	0	Break even position forecast
<b>Associates</b>				
Grampian Valuation Joint Board	30.09.19	(0)	-	Forecast not yet available

The notes below summarise the current financial position in respect of each of the group entities.

### **Subsidiaries**

#### **Common Good**

The Common Good is corporate property and must be applied for the benefit of the community as the Council thinks fit. It is invested in land and buildings, such as industrial estates and farms, with any surplus being placed on cash deposit with other local authorities, building societies and the Council's Loans Fund.

The Common Good is currently forecasting break even position for 2019/20 mainly as a result of recurring income and expenditure – see Appendix 2. The financial statement for the quarter is shown in Appendix 3.

#### **Trust Funds**

The Council is responsible for the administration of various trusts created by bequest or evolved through history or by public subscription which are utilised for a variety of benefits such as education and social work, charitable purposes, religious instruction, medical institutions, the upkeep of public works and also the administration of the Guildry. The money earned from the investments of the Trusts is used to provide grants, prizes and dux medals for school children and requisites for clients in Social Work homes.

Financial information for the Trust Funds will be available at year end, 31 March 2020. They are not expected to have a material impact on the Council's financial position for 2019/20.

## **Sport Aberdeen**

Sport Aberdeen Limited is a charity and constitutes a limited company limited by guarantee. The principal activity of the company is the provision of recreation leisure facilities and services on behalf of Aberdeen City Council in accordance with key priorities. Although Aberdeen City Council does not own the entity it is considered that control representing power to govern exists through agreements in place and that Sport Aberdeen Limited operates as a structured entity of the Council. The results for the period ended 31<sup>st</sup> August 2019 show a surplus of £380K. This is mainly due to the seasonal nature of Sport Aberdeen's business model where activities are higher in the warmer months of the year. Sport Aberdeen is forecasting a break even position for the financial year 2019/20 due to higher expenditure being envisaged in quarter 2 and 3. This is expected to eliminate the current surplus.

## **Bon Accord Care and Bon Accord Support Services**

Bon Accord Care Limited (BAC) and Bon Accord Support Services Limited (BASS) are private companies limited by shares which are 100% held by Aberdeen City Council. Bon Accord Care provides regulated (by the Care Inspectorate) care services to Bon Accord Support Services which in turn delivers both regulated and unregulated adult social care services to the Council.

The consolidated position of Bon Accord Care and Bon Accord Support Services shows an overall deficit of £30k for the period ended 30 September 2019, compared to a budgeted deficit at this stage of the year of £31k. This represents a positive variance of £1k. The current budgeted deficit is mainly due to the budget profiling to reflect the purchasing of more aids equipment during the first two quarters of the year and less during the last two quarters. An overall break even position for the financial year 2019/20 is currently forecast.

## **Joint Ventures**

### **Aberdeen Sports Village Limited (ASV)**

ASV Ltd is a company limited by guarantee and registered as a charity. It is a joint venture company owned equally by the Council and The University of Aberdeen. ASV Ltd was incorporated in 2007 and its objectives are to provide sports and recreational facilities, including elite sports facilities for the use of both students and staff of the University of Aberdeen and the general public, and the advancement of public participation in sport.

The financial year end for ASV Ltd is not aligned to the Council's with its year end being 31 July. The latest available financial information for Aberdeen Sports Village is for the period ended 28<sup>th</sup> February 2019, which was incorporated into the Council 2018/19 group accounts. The Chief Officer – Finance is following up with the company in relation to its year end position (ending 31 July 2019).

### **Aberdeen City Integration Joint Board (IJB)**

The IJB was established by order of Scottish Ministers on 6 February 2016, becoming fully operational from 1 April 2016. The IJB is responsible for the strategic planning, resourcing and operational delivery of all integrated health and social care within the Aberdeen City area. This has been delegated by the partners; Aberdeen City Council and NHS Grampian.

The IJB is currently experiencing budget pressures from the Council side of the budget specifically in Home and Residential Care. Steps have been taken by the management team to mitigate against cost pressures identified.

Work is ongoing on a detailed review of the Carefirst system to ensure all records are current. The executive team is currently working on savings plan to cover any overspend.

On the NHS side, the budget is currently as originally anticipated. Risks of overspends in prescription services has been identified. The NHS has taken steps within the past couple of months to mitigate against this risks by undertaking a series of structural changes .

The IJB is currently forecasting a break even position. This is based on the assumption that any anticipated overspends will be funded from reserves. The IJB currently holds a risk fund of £2.5m which could be used to cover any possible overspend. It is not expected that the IJB will be seeking any additional funds from the Council or the NHS.

## **Associates**

### **Grampian Valuation Joint Board**

The Grampian Valuation Joint Board was created following Local Government Re-organisation on 1 April 1996, under the Local Government (Scotland) Act 1994 and covers the local government areas of Aberdeenshire, Aberdeen City and Moray.

The Board has reported a breakeven position as at 30 September 2019 compared to a budgeted loss of £78k at this stage of the year, representing a better than expected variance of £78k.

A full year forecast position is not available at this time.

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