



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

Contents

Management Commentary	
- General Fund	2
- Housing Revenue Account	4
- General Fund Capital Programme	7
- Housing Capital Programme	9
- Common Good	11

MANAGEMENT COMMENTARY

This is the first reporting point 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 first quarter, the forecast for the year is build 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 has to respond. 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 follow:

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. A recommendation on stimulating an increase in the number of City Council foster carers is included in the covering report;
 - Demand for trade waste has declined and market changes have adversely affected the price of recyclates, which is resulting in reduced income from Commercial Waste;
 - While demand for work continues to be high for building services the shortage of resources is impacting on the surplus that Building Services is anticipating to generate.

2. The main areas of pressure within Customer are:
 - The decommissioning of private sector leasing contracts and the associated maintenance of the flats results 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:
 - Shared services may not achieve the efficiency saving expected 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 City Growth are:
 - 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. .
6. The main areas of pressure within 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.
7. The main areas of pressure within Governance are:
 - On target to deliver under budget the risk is that charges for legal support do not match budgeted levels.
8. The main areas of pressure within Integrated Joint Board/Adult Social Care are:

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;

 - Increased demand for commissioned services across all client groups;
 - Costs related to children transitioning from Childrens' 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 out of area placements,
9. 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 9 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 course of the year.

Contingencies also holds the in-year 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 identified contingent liabilities becoming

more certain. 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.

10. Council Expenses has no major variances.
11. The Joint Boards budget and outturn is based on the amount requisitioned by Grampian Valuation Joint Board, and is on budget.
12. 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.
13. 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 will continue into 2019/20 with fresh applications required from ratepayers wishing relief under this scheme.
14. 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 forecast for 2019/20 is below budget due to the level of funding to compensate for the pension contribution increase that the Council is going to incur, the budget assumed income of £2.6m and actual distribution from UK and Scottish Government will be £1.9m for Aberdeen City..
15. Council Tax income is forecast be on budget for the year.
16. 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

17. 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.
- A detailed review of the out of authority placements for children by the Chief Officer – Integrated Children's Services is underway.

- 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 request's to spend have to 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 Financial Officer 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 certainly 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 1

As at 30 June 2019	Budget 2019/2020	Outturn 2019/2020 Quarter 1	Variance from Budget		Notes
	£'000	£'000	£'000	%	
Operations	260,701	263,992	3,291	1.3	1
Customer	38,048	39,008	960	2.5	2
Commissioning	6,457	6,853	396	6.1	3
Resources	580	1,163	583	100.5	4
City Growth	9,372	9,790	418	4.5	5
Strategic Place Planning	7,630	8,071	440	5.8	6
Governance	3,204	3,132	(72)	(2.2)	7
Integration Joint Board	88,813	88,813	0	0.0	8
Total Functions Budget	414,805	420,822	6,017	1.5	
Contingencies	(15,447)	(18,496)	(3,049)	19.7	9
Council Expenses	2,861	2,824	(37)	(1.3)	10
Joint Boards	1,686	1,686	0	0.0	11
Miscellaneous Services	47,618	44,481	(3,136)	(6.6)	12
Total Corporate Budgets	36,718	30,495	(6,223)	(16.9)	
Non Domestic Rates	(258,560)	(258,560)	0	0.0	13
General Revenue Grant	(70,116)	(69,910)	206	(0.3)	14
Government Support	(328,676)	(328,470)	206	(0.1)	
Council Tax	(122,516)	(122,516)	0	0.0	15
Local Taxation	(122,516)	(122,516)	0	0.0	
Contribution from Reserves	(331)	(331)	0	0.0	16
Contribution from Reserves	(331)	(331)	0	0.0	
Deficit/(Surplus)	(0)	(0)	(0)	0.0	

Housing Revenue Account Summary 2019/2020 - Quarter 1

Deficit/(Surplus)	(500)	(500)	0	(0)	17
--------------------------	--------------	--------------	----------	------------	-----------

General Fund Capital Programme

The programme has been updated since that set by Council in March 2019 to reflect projects' final financial positions in 2018/19 and announcements of new projects awarded to the Council with full funding.

The re-profiling from 2018/19 to future years does not alter the total cost of any project, it simply updates the profile across the project life.

Decisions taken at City Growth and Resources Committee in June 2019 in relation to the programme have also been incorporated.

As at Period 3 2019/20	Gross Figures for 2019/20					
	Original Approved Budget £'000	Adjustments & Carry Forwards £'000	Revised Budget £'000	Expenditure to Date £'000	Forecast Outturn £'000	Variance from Revised Budget £'000
AECC Programme Board	60,905	(6,461)	54,444	33,401	54,444	0
Asset Management Programme Board	25,993	5,235	31,228	2,964	16,124	(15,104)
Asset Management Programme Board Rolling Programmes	24,848	2,873	27,721	3,349	18,801	(8,920)
City Centre Programme Board	18,335	6,008	24,343	1,046	7,824	(16,519)
Energy Programme Board	27,584	4,233	31,817	294	31,791	(26)
Housing and Communities Programme Board	1,496	1,696	3,192	510	2,592	(600)
Housing and Communities Programme Board Rolling Programmes	872	134	1,006	199	1,006	0
Transportation Programme Board	21,557	2,792	24,349	3,322	12,865	(11,484)
Transportation Programme Board Rolling Programmes	1,500	1,807	3,307	0	1,500	(1,807)
Strategic Asset & Capital Plan Board	(179)	14,521	14,342	624	13,938	(404)
Developer Obligation Projects & Asset Disposals	200	(200)	0	547	562	562
Total Expenditure	183,111	32,638	215,749	46,257	161,447	(54,302)
Capital Funding:						
Income for Specific Projects	(25,753)	(9,083)	(34,836)	(1,693)	(25,599)	9,237
Developer Contributions	0	0	0	(547)	(562)	(562)
Capital Grant	(27,671)	0	(27,671)	(6,588)	(27,671)	0
Other Income e.g. Borrowing	(129,687)	(23,555)	(153,242)	(37,429)	(107,615)	45,627
Total Income	(183,111)	(32,638)	(215,749)	(46,257)	(161,447)	54,302

Updates required since the programme set by Council in March 2019 are quoted in the Adjustments and Carry Forwards column, and include:

- Updates of £28.143 million in 2019/20 to reflect projects' actual financial position at the end of 2018/19. This re-profiling between financial years does not alter the total cost of any project, it simply updates the profile across the project life. Additional financial re-profiling across the approved 5 Year programme to take account of changes in external funding profiles will be reviewed by officers and presented as part of the Quarter 2 report.
- The announcement of the £1.351 million Scottish Government Grant for the Town Centre Fund, as reported to this committee in June.
- Confirmation of the £3.144m purchase price now paid for the acquisition of the Kingsmead Nursing Home and the associated financing arrangements, as approved by Council in June 2017.

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: Construction works are substantially complete on The Event Complex Aberdeen (TECA) and handovers of completed pieces of infrastructure to the

Council and then formally to our appointed operators have continued ahead of opening for Offshore Europe. The appointed operators for TECA and the hotels are undertaking the necessary fit-out work and training / pre opening activities with their staff.

- Asset Management Programme; design works have continued on the new Schools programme, and the advancement of the Early Learning and Childcare (ELC) programme,.
- City Centre Masterplan Programme Board: Procurement processes have continued for key projects, including Union Terrace Gardens and Provost Skene House, with further works proceeding on the Broad Street and Schoolhill public realm projects, and the kit out phase of Aberdeen Art Gallery.
- Energy Programme Board: the preferred bidder stage of the joint Energy from Waste facility, in collaboration with Aberdeenshire and Moray Councils, is now expected to conclude in Quarter 2. The JIVE project for the next phase of hydrogen buses is now expected to have an expanded scope with additional buses funded by through the existing EU agreements.
- 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: Is being reviewed by officers in support of the North East Scotland Roads Hierarchy report approved by this committee in June, to identify project prioritisation, and ensure alignment with continued works for the Aberdeen City Region Deal, the opening of the Aberdeen Western Peripheral Route and future opening of the Aberdeen Harbour Extension at Bay of Nigg. Officers are also in discussion with the Scottish Government for Low Emissions Zone funding, which will be reported in due course.

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 taking account of spending patterns in the first quarter. As 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 be made by the Capital Programme Committee.

Housing Capital Programme

Housing Capital Programmes As at 30 June 2019	Approved Budget	Expenditure to date	Forecast Expenditure
	£'000	£'000	£'000
Compliant with the tolerable standard	2,527	78	2,527
Free from Serious Disrepair	9,502	1,273	9,502
Energy Efficient	8,733	1,942	8,733
Modern Facilities & Services	2,589	171	2,589
Healthy, Safe and Secure	6,609	556	6,609
<i>Non Scottish Housing Quality Standards:</i>			
Community Plan and Local Outcome Improvement Plan	5,800	803	5,800
Service Expenditure	4,226	585	4,226
2,000 New Homes Programme	11,172	0	11,172
	51,158	4,020	51,158
less 11% slippage	(4,398)		(4,398)
Net Programme	46,760	4,020	46,760

Capital Funding			
Borrowing	(20,586)	0	(20,586)
Capital Funded from Current Revenue	(26,174)	(4,020)	(26,174)
Total	(46,760)	(4,020)	(46,760)

The housing capital expenditure budget of £51.158M 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 level of 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.

Ongoing inspection of properties is part of the range of activities for managing a property estate. Recent inspection reports show that action is required in a number of multi-storey blocks, to the value of £470,000. Approval is sought from the Committee for this to be funded by a shift in resources from the window replacement budget for this year, based on an reassessment of the works that will be completed from this budget.

Conclusion

The housing capital programme will deliver significant improvements across the housing estate over the course of the year. At present the forecast is that the slippage anticipated in the budget will arise, and greater clarity on this is expected to be available in the quarter 2 report.

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 Period 3 2019/20	Forecast to Year End		
	Full Year Revised Budget	Forecast Actual	Variance Amount
	£'000	£'000	£'000
Recurring Expenditure	2,844	2,844	0
Recurring Income	(3,678)	(3,678)	0
Budget After Recurring Items	(834)	(834)	0
Non Recurring Expenditure	3,246	3,246	0
Non Recurring Income	0	0	0
Net Expenditure / (Income)	2,412	2,412	0
Amounts required for increase in cash balances in line with inflation	369	369	
Revised Net Expenditure	2,781	2,781	
Cash Balances as at 1 April 2019 (audited)	(29,729)	(29,729)	
Estimated Cash Balances as at 31 March 2020	(26,948)	(26,948)	
Calculated minimum cash balance requirement at 31 March 2020	(26,044)	(26,044)	

The Common Good, based on spending to the end of Quarter 1, 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 for as necessary at the end of the year.