

ABERDEEN CITY COUNCIL

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

| Revenue | 2019/20 Budget £'000 | 2019/20 Forecast (Surplus) Deficit exc. Group £'000 | Variance (Under) / Over Budget £'000 |
|----------------|-------------------------------------|--|---|
| 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:

| Capital | 2019/20 Budget £'000 | 2019/20 Forecast Expenditure £'000 | Variance (Under) / Over Budget £'000 |
|----------------|-------------------------------------|---|---|
| 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:

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

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 |
|------------------|--|-------------------------------------|--|
| Financial | 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 |
| Legal | 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. |
| Employee | 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 |
| Customer | 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. |

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| | on the customer experience. | | |
| Environment | None identified | | |
| Technology | 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. |
| Reputational | 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

| Local Outcome Improvement Plan Themes | |
|--|--|
| | Impact of Report |
| Prosperous Economy | 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. |
| Prosperous People | Robust and effective management of the Council's finances will ensure that services can continue to be provided. |
| Prosperous Place | 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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