



**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 third 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 third 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 several 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 will be revised as trading continues, following the re-opening of the Aberdeen Art Gallery.

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 and a General Election.

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;
- Under-recovery of client contributions;
- An increase in staffing costs;
- A rise in need for the number of clients receiving care from out of area placements,

There is a risk that changes to the above demand pressures in the IJB have an impact on the Council in 2019/20, however as at Quarter 3 the IJB is forecasting a balanced position.

The Chief Officer – Finance has been advised by the IJB that the risk of the Council being asked to contribute further funds in 2019/20 has increased in the last quarter but there remains a low likelihood of this occurring as the IJB still has reserves to rely on.

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 three 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 can increase 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, which opened in Quarter 2, reporting now includes 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 slightly ahead of 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 People & 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, People & 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. 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

Based on 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 3

As at 31 December 2019	Budget 2019/2020	Outturn 2019/2020 Quarter 3	Variance from Budget		Notes
	£'000	£'000	£'000	%	
Operations	260,565	261,627	1,062	0.4	1
Customer	38,143	36,912	(1,231)	(3.2)	2
Commissioning	6,350	8,168	1,818	28.6	3
Resources	835	574	(261)	(31.3)	4
Place	17,052	17,723	671	3.9	5
Governance	3,216	3,365	149	4.6	6
Integrated Joint Board	89,061	89,061	(0)	(0.0)	7
Total Functions Budget	415,223	417,431	2,208	0.5	
Contingencies	(15,957)	(14,934)	1,023	(6.4)	8
Council Expenses	2,954	3,584	630	18.2	9
Joint Boards	1,686	1,741	55	3.3	10
Miscellaneous Services	47,618	44,437	(3,181)	(6.7)	11
Total Corporate Budgets	36,300	34,737	(1,472)	(4.3)	
Non Domestic Rates	(258,560)	(258,560)	0	0.0	12
General Revenue Grant	(70,116)	(70,760)	(644)	0.9	13
Government Support	(328,676)	(329,320)	(644)	0.2	
Council Tax	(122,516)	(122,608)	(92)	0.0	14
Local Taxation	(122,516)	(122,516)	(92)	0.0	
Contribution from Reserves	(331)	(331)	0	0.0	15
Contribution from Reserves	(331)	(331)	0	0.0	
Deficit/(Surplus)	0	(0)	0	0.0	

Housing Revenue Account Summary 2019/2020 - Quarter 3

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

As at Period 9 2019/20	Gross Figures for 2019/20					Variance from Revised Budget £'000
	Original Approved Budget £'000	Adjustments & Carry Forwards £'000	Revised Budget £'000	Expenditure to Date £'000	Forecast Outturn £'000	
AECC Programme Board	60,905	35,059	95,964	76,901	92,044	(3,920)
Asset Management Programme Board	25,993	5,235	31,228	7,681	18,549	(12,679)
Asset Management Programme Board Rolling Programmes	24,848	2,873	27,721	13,319	19,431	(8,290)
City Centre Programme Board	18,335	6,008	24,343	5,556	16,439	(7,904)
Energy Programme Board	27,584	4,233	31,817	15,298	22,723	(9,094)
Housing and Communities Programme Board	1,496	1,696	3,192	958	1,643	(1,549)
Housing and Communities Programme Board Rolling Programmes	872	134	1,006	475	750	(256)
Transportation Programme Board	21,557	4,108	25,665	5,239	11,222	(14,443)
Transportation Programme Board Rolling Programmes	1,500	1,807	3,307	139	1,000	(2,307)
Strategic Asset & Capital Plan Board	(179)	14,521	14,342	1,978	4,971	(9,371)
Developer Obligation Projects & Asset Disposals	200	(200)	0	1,018	1,047	1,047
Total Expenditure	183,111	75,474	258,585	128,563	189,818	(68,766)
Capital Funding:						
Income for Specific Projects	(25,753)	(41,935)	(67,688)	(8,017)	(22,974)	44,714
Developer Contributions	0	0	0	(875)	(1,047)	(1,047)
Capital Grant	(27,671)	0	(27,671)	(20,962)	(27,671)	0
Other Income e.g. Borrowing	(129,687)	(33,539)	(163,226)	(98,710)	(138,126)	25,100
Total Income	(183,111)	(75,474)	(258,585)	(128,563)	(189,818)	68,767

The programme has been updated to reflect project decisions taken by this committee at the beginning of December 2019 concerning the Mortuary and Smart City projects. The Council has also been notified of an additional £35,000 Low Emissions Zone funding from the Scottish Government, which has been added to the Transportation programme.

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:** The Event Complex Aberdeen (TECA) continued to build on early successes this quarter, including hosting several high-profile concerts and the BBC Sports Personality of the Year event. The final piece of infrastructure, the Anaerobic Digestion Gas to Grid (AD plant), will complete the complex in 2020.
- **Asset Management Programme:** Design works have continued on the new Schools programme, the advancement of the Early Learning and Childcare (ELC) programme, and the Kingsfield Children's Home project. Procurement processes were also commenced for the Council's continued digital investment in Parking Enforcement Infrastructure and upgraded CCTV systems.
- **City Centre Masterplan Programme Board:** Aberdeen Art Gallery (AAG) successfully re-opened to the public on Saturday 2 November 2019, with more artefacts on display than ever before. The Schoolhill Public Realm project was also completed in time for AAG's opening day. Contractors are on site for other key projects, including Union Terrace Gardens and Provost Skene House, and further works proceeding on the Broad Street.
- **Energy Programme Board:** Governance arrangements are in place between the partner Councils for the NESS Energy from Waste facility, and elected member representatives from all 3 Councils were invited for a site tour in early December to view the initial works. The Council continued discussions with the Administrators of Wrightbus, the supplier of the Council's new fleet of hydrogen buses, and also engaged with the company's potential new owners to progress delivery of the buses.

- Housing and Communities Programme Board: The opening of the Council's second Cruyff Court, located beside Tullos Primary School and named after Dons footballer Neale Cooper, was celebrated in early October.
- Transportation Programme Board: Officers continue to progress 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 taking account of spending patterns to the end of Quarter 3. 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 31 December 2019	£'000	£'000	£'000
Compliant with the tolerable standard	2,527	582	2,527
Free from Serious Disrepair	9,502	3,823	9,802
Energy Efficient	8,733	6,320	8,753
Modern Facilities & Services	2,589	916	2,589
Healthy, Safe and Secure	6,609	3,209	6,289
<i>Non Scottish Housing Quality Standards</i>			
Community Plan and Local Outcome Improvement Plan	5,800	4,194	5,800
Service Expenditure	4,226	436	4,226
2000 New Homes Programme	11,172	12,510	11,172
	51,158	31,990	51,158
less 11% slippage	(4,398)		(4,398)
Net Programme	46,760	31,990	46,760
Capital Funding			
Borrowing	(20,586)	0	(20,586)
Capital Funded from Current Revenue	(26,174)		(26,174)
Total	(46,760)	0	(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 must 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. Sites will be added to the programme as part of the budget process.

Approval is sought from Committee for the following virements.

Increases

£4,300,000 for the delivery of the 2,000 new homes programme as the cashflow of the Wellheads site in Dyce varies from the original 19/20 budget.

Reductions

£4,300,000 from Free from Serious disrepair due to a lack of agreement from owner occupiers in the blocks and suitable contractors leading to underspend.

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.

COMMON GOOD

	Full Year Budget 2019/20	Forecast Outturn 2019/20	Variance from Budget
As at December 2019	£'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	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	(29,729)	(29,729)	
Estimated Cash Balances as at 31 March 2020	(26,578)	(26,578)	
Minimum cash balance requirement per budget report (Council February 2015)	(26,044)	(26,044)	

The Common Good, based on spending to the end of Quarter 3, 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 Chief Officer - 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.