ABERDEEN CITY COUNCIL

COMMITTEE	City Growth and Resources
DATE	28 October 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Council Financial Performance – Quarter 2, 2020/21
REPORT NUMBER	RES/20/166
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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 2020) and the full year forecast position for the financial year 2020/21, including:

- General Fund and Housing Revenue Account (HRA) 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 Consider the General Fund position and agree on the actions to be taken to address the projected deficit as detailed in Appendix 2, making reference to the options available at paragraph 3.27, and lack of clarity on the value of income that may be receivable through the Income Loss Scheme;

2.4 Note that the revenue budget for the HRA is on target to achieve the approved budget, making a contribution to HRA reserves for 2020/21 as detailed in Appendix 2;

2.5 Note that the budget for the Common Good will be exceeded following additional contributions approved by the Urgent Business Committees on 6 May and 30 June 2020. Noting that cash balances forecast for the year remain in line with recommended levels, detailed in Appendix 2; and

2.6 Note that the capital expenditure for the General Fund will be lower than budgeted as a result of capital works being closed over the lockdown period of the Covid -19 pandemic. This will result in project budgets being carried forward into 2021/22; and it is estimated that expenditure on the Housing Capital programme will also be lower than budget also due to sites being closed, as detailed in Appendix 2;

3. BACKGROUND

3.1 The Local Government Finance Act 1992 provides that the Council must set its Council Tax amount by 11 March each year for the next financial year. The amount set must be sufficient to meet total estimated expenditures. This means that having taken account of expenditure, agreed savings and income from other sources, the level of Council Tax must ensure that a balanced budget is set by the Council. Aberdeen City Council set the Council Tax for 2020/21 on 3 March 2020 to ensure a balanced budget for year ahead, in accordance with its statutory duty.

3.2 It was identified early in the financial year that due to the Covid-19 pandemic a significant deficit was emerging. A report, to maintain a balanced budget based on the known information at that time, was considered by the Urgent Business Committee on 30 June 2020.

3.3 This report builds on that report, highlighting the emerging forecasts for expenditure and changes from those that were predicted at quarter 1. In that report I noted that as the council's Chief Financial Officer, I had attempted to ensure as much reliability and rigour to the financial data presented but stressed that those numbers were only as good as the information I had at the time and given the huge uncertainty that remained could change.

3.4 This report focuses on both the financial performance for the year to 30 September 2020 and the forecast financial position for the full year for the Council's General Fund, Housing Revenue Account and Common Good.

3.5 Across the General Fund the impact of the ever changing Covid-19 environment continues to change our understanding of the financial position and the need to address ongoing costs pressures remains a feature as I report our quarter 2 position and forecasts.

3.6 In June a deficit of c.£26m was rebalanced taking account of the known information on grant funding and a range of decisions being taken by the Urgent Business Committee.

- Scottish Government Funding £8.3m from consequentials to support local government expenditure and was distributed on the basis of local government financial settlement indicators;
- Flexibility agreed by the Scottish Government to enable councils to access uncommitted specific grant funding, that would normally be set aside for education and early year's expansion commitments, £8m;
- Flexible use of capital receipts, £0.5m to fund transformation expenditure, permitted since December 2018 and available until the end of 2020/21;

- one-off use of reserves £0.1m by releasing earmarked reserves for general use;
- one-off monies available from the Common Good, from in-year underspend projected and available cash balances to a value of £0.7m;
- reducing the financial resilience within the annual budget, by reducing contingencies by £1.0m; and finally
- balanced by a range of service based savings across the council, that were agreed, with service levels changed to take account of the expected progress through the Scottish Government's Route Map to easing Covid-19 restrictions.

3.7 Through the analysis of financial data and forecasting based on a greater volume of financial transactions through our systems the position is different as I report now.

3.8 Key aspects that have changed:

- Government grant funding has increased by £1.7m, our share of the £49m of consequentials distributed by the Scottish Government using Grant Aided Expenditure indicators and methodology. This funding can be used to support Council expenditure generally.

- Other funding has been distributed for specific costs, for example £0.6m has also been distributed to specifically support the infrastructure, cleaning and equipment costs for reopening the schools; and over £1.5m has been allocated, over the academic year, for additional teaching and support staff. Other funding steams are included in Appendix 1.

- At quarter 1 the £26m deficit itself had been arrived at on the basis that the management of vacancies and turnover of posts would result in over £23m of savings. This is now forecast to be closer to £15m as recruitment of staff, particularly in schools, has been successful for filling critical posts; and from fewer people leaving the Council.

- Revision to children services costs based on improved financial data for children placed in residential accommodation outside the city, where costs have been influenced by Covid-19 restrictions in quarter 1 not enabling young people to return to the city.,

- The ongoing review of income budgets and refinement based on improved data to forecast full year values and updated calculations in relation to uncollected debts.

- Savings have been identified too, including from the review of the capital financing costs, in line with the accounting policies, and in light of the forecasts for the capital programme this year as described in Appendix 2.

- Further detail on the variances is provided in Appendix 2.

3.9 The appendices show that the IJB is forecasting a balanced position as at Quarter 2, based on additional funding of £9.1m confirmed for it at the end of

September. The Board continue to rely on the Ministerial commitment to fund all of the identified mobilisation costs and therefore expect further funding announced to meet any shortfall towards the end of the year.

3.10 The Council should not ignore the risk that the demand pressures from the Covid-19 pandemic could yet adversely affect the position in the second half of the year, that may have to be addressed in 2020/21. The Urgent Business Committee report, 30 June, included details of those risks.

3.11 Further financial risks continue to emerge as the pandemic and the consequences develop. An example was highlighted in a letter from Scottish Government, 12 October 2020, on the subject of revised heating and ventilation guidance for the reopening of schools. This highlights the minimum standards expected and updates previously issued guidance. The financial implications have not yet been forecast, with utility costs potentially significantly affected

3.12 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.

3.13 A deficit of £5m has emerged from the latest data.

3.14 Solutions may come from several sources.

3.15 Financial flexibilities confirmed 9 October 2020 by the Scottish Government, provide levers for local authorities over the course of this and next year. There are three:

1. Capital receipts received in 2020/21 and 2021/22 can be used to meet revenue funding pressures caused by Covid-19 impact, recognising that the value and likelihood of capital receipts may be affected by the pandemic too. The Council has current commitments in relation to voluntary severance and early retirement and transformation costs that are to be met first from any capital receipt received.

2. Credit arrangements, for example PPP/PFI service contracts, applying revised international accounting standards that are due to be implemented in 2021/22 could provide scope to make debt repayments included in these contracts over an extended period. The flexibility allows early implementation, in 2020/21 to help mitigate the costs of Covid-19. This is a flexibility that the council should explore as it would bring parity with current capital repayment policy.

3. Loans fund repayment holiday, deferring the planned repayment of debt principal for 2020/21 or 2021/22 (not both years), creating a saving. This is not a cancellation of the money owed, and the council will then face higher payments in future years to repay the missed payment over a period of not more than 20 years. The council should avoid this flexibility

as it will add revenue pressure to the medium to long-term financial scenarios.

3.16 The Cabinet Secretary for Finance, in granting the flexibilities, was clear that this must not be seen as an opportunity to maintain or grow reserves. Local authorities must consider these in order, first consider the additional resources available from capital receipts and the change in accounting arrangements for service concession arrangements before taking advantage of a loans fund repayment holiday.

3.17 In relation to applying these in 2020/21 I'd advise the following:

1. Capital receipts are not available, they have been already committed to VS/ER scheme payments and transformation costs.
2. Credit arrangements, the council has these type of contracts and calculations can be done to establish the impact, with this being applied this year.
3. Loans Fund repayment holiday, I do not recommend at this juncture in the financial year but may yet have to be utilised going forward due to the risks of increasing cost pressures and lost income streams.

3.16 In the letter confirming the flexibilities described above, the Cabinet Secretary for Finance agreed to the principles of an Income Loss scheme as proposed by Cosla.

3.17 Funding to date has been distributed from Scottish Government to support Council's expenditure, the income loss scheme – arising from the UK Treasury scheme for English Local Authorities – is specific to the net income lost by local government in Scotland. It is also intended to consider lost net income of Arm's Length External Organisations.

3.18 While the principles are generally agreed there is still work being done to bring together the detail and what that means for individual councils. The Cabinet Secretary referred to COSLA being expected to gather the data, undertake the necessary validation checks, including Section 95 Officer sign-off, and confirm the indicative allocations to the Scottish Government.

3.19 Current estimate of the consequentials for the scheme are estimated at £90m but as the scheme in England doesn't have a specific total value and is subject to claims by local authorities the actual consequentials will not be known until that has been done.

3.20 When Cosla has finished the work described above the allocations can only be indicative. The final allocations updated and money will be paid in March 2021.

3.21 The total value of lost income, including ALEOs, in Scotland is estimated to be more than the £90m of funding that is indicativley available. Add to this the uncertainty as to how the distribution method will work for each council and it is unclear at the time of writing what the distribution of funds will be to Aberdeen City.

3.22 There is also the outstanding issue in terms of total funds being distributed equitably, taking account of income and expenditure pressures. Forecasts of the financial impact have been collected on three occasions by Cosla and the Aberdeen City proportion of the total value in Scotland that they published ranged from 8.2% to 4.3%. The distribution method applied to consequentials funding to date is based on expenditure indicators and therefore the Council received approximately 3.5% of the funding available.

3.23 There is therefore a discrepancy, as Aberdeen City has to date received a smaller proportion of the distributed funding than it has identified it needs. It means that some other councils will have received proportionally more funding than their reported deficits would require.

3.24 The development of the income loss scheme adds more complexity and with the situational changes and fluid nature of the forecasts, as exemplified in this report, mean that an overall position for councils will not actually be known until the end of the financial year. But that is too late.

3.25 There should be fairness in the distribution of funds, so in the event that the full financial impact of the pandemic is not funded by Scottish Government, each council receives the same proportion of their losses, rather than creating a environment of winners and losers.

3.26 The Council forecast in this report for the General Fund require us to act again to close the deficit, and the options are:

1. Explore the credit agreements flexibility option and apply benefits from 2020/21;
2. Pause, on the understanding that the Income Loss Scheme is being developed and the Council should benefit from further funding;
3. Ask for additional savings options and to report these back to a future CGR / UBC meeting.

3.29 Turning to the General Fund Capital Programme, all capital works have been affected by the March 2020 lockdown and very little progress was made in the first quarter of the year. Work is ongoing to reprofile the budgets, however this will continue throughout the remainder of the year as the continuing impact of the pandemic manifests itself, with the risk of further lockdowns or delays.

3.30 The Capital Programme spend is lower than budget, primarily due to the timing of expenditure, which has reduced the requirement for borrowing during the financial year. Project progress is monitored through the Capital Programme Committee.

3.31 The Housing Revenue Account is forecasting to be on budget and the associated Housing Capital Programme has also been delayed due to the constraints around the pandemic with expenditure forecast lower than budget incorporated the first of the new build housing projects, at Wellheads, Dyce and Summerhill development. These additional homes will generate a new income stream to fund the investment and satisfy a demand for housing.

3.32 The Common Good cash balances are forecast to be in line with recommended levels at the year end having taken into account the decisions agreed by Urgent Business Committee in May and June 2020. Additional expenditure was approved at both meetings amounting to a total of £0.8m.

3.33 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 2020 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 2020 is positive as the profile of income from Scottish Government and Council Tax collection levels support expenditure levels.

   The Balance Sheet figures at 30 September 2020 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 2020 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 approximately £198 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 2020 and provides an overview of performance.

4. This provides information on the Group Entities. The forecast for the year indicates that there continue to be areas of concern in relation to a number of these entities for 2020/21, as detailed in the Financial Resilience reports to Urgent Business Committee, May and June 2020 and ALEO Assurance Hub report to Strategic Commissioning Committee, September 2020.

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	2020/21 Budget £'000	2020/21 Forecast (Surplus) / Deficit exc. Group £'000	Variance (Under) / Over Budget £'000
General Fund	0	4,950	4,950
HRA	(500)	(500)	0
Common Good	(439)	394	833

4.2 The capital position can be summarised as follows:

Capital	2020/21 Budget £'000	2020/21 Forecast Expenditure £'000	Variance (Under) / Over Budget £'000
General Fund	195,759	152,523	(43,236)
HRA	62,149	46,102	(16,047)

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 2020/21 financial position, including details of the movement between Reserves.

4.5 The usable reserves have moved as follows:

Usable Reserves	Balance at 31 March 2020 £'000	Balance at 30 September 2020 £'000	Movement £'000
General Fund	(35,294)	(167,655)	(132,361)
HRA	(12,808)	(12,808)	0
Statutory & Other	(11,860)	(13,658)	(1,798)
Total	**(59,962)**	**(194,121)**	**(134,159)**

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. This cash position will be reversed in the second half of 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

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk		L	
Compliance	There is the risk that the accounts do not comply with legal and accounting legislation.	L	Annual external audits are undertaken to review the financial transactions and controls. Ongoing internal audits also review specific financial and service data.
Operational	There is the risk that there may be an IT system failure.	L	Daily backups taken and held offsite for security purposes. Constant review and update of security systems for IT.
Financial	The main financial risk the Council is managing is the increased demand on services and ongoing Covid-19 implications. 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 M	Reviewing all areas of expenditure with a view to only incurring essential expenditure. Regular reporting and action taken where appropriate. Quantification and review of indicative projects costs by suitable qualified staff or external body, where appropriate.
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.

Environment / Climate	None identified		

7. OUTCOMES

COUNCIL DELIVERY PLAN	
	Impact of Report
Aberdeen City Council Policy Statement	*Financial planning, budget setting and resource allocation are all enablers for the delivery of the outcomes and regular performance reviews ensure that the Council's stewardship and financial management are robust.*
Aberdeen City Local Outcome Improvement Plan	
Prosperous Economy Stretch Outcomes	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 Stretch Outcomes	Robust and effective management of the Council's finances will ensure that services can continue to be provided.
Prosperous Place Stretch Outcomes	Investment will enhance the place by creating a better and more vibrant city in which to live.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	not required
Data Protection Impact Assessment	not required

9. BACKGROUND PAPERS

None.

10. APPENDICES

Appendix 1 – Financial Statement for the period ending 30 September 2020
Appendix 2 – Forecast Financial Position for the year 2020/21
Appendix 3 – Common Good Financial Statement for the period ending 30 September 2020
Appendix 4 – Group Entities Forecast Financial Position for the year 2020/21

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