



**PROJECTED FINANCIAL POSITION
FOR THE YEAR 2020/21**

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MANAGEMENT COMMENTARY

This is the second quarter report on the Council's finances, and follows approval of the revised budget at Urgent Business Committee on 30 June 2020.

Appendix 1 provides the Income and Expenditure Statement and Balance Sheet of the Council as at 30 September 2020. The forecast for the year is built on the information that was available at this time.

The full year budgets reflected in the table below differ from those set by Council in March 2020 as the Covid-19 pandemic and subsequent lockdown created many changes to expected income and expenditure of the Council for 2020/21. The Council reviewed and updated the March budget to ensure that all known risk areas were recognised and identified further savings and the use of flexibilities in the ELC expansion specific grant funding to continue to forecast a balanced position for the year. This revised budget was presented at Urgent Business Committee on 30 June 2020.

The forecasts for the year are built on information that was known as at 30 September 2020 with further adjustments to reflect any significant changes after this date.

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 the 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:
 - An increase in the teaching staff costs due to successful recruitment over the last two months, and approved alternative delivery model spend in Education,
 - Increased spend on Out of Authority Placements due to COVID-19 restrictions not enabling children to return to the City,
 - A delay in capital works restarting in Roads after COVID-19 restrictions is likely to impact revenue income,
 - Higher staff costs associated with additional cleaning requirements,
 - The contract costs for education and social work transport in the current year.
2. The main areas of pressure within Customer are:
 - The impact of decreased demand for advertising services is forecast to result in lower income levels this year.
 - Contract savings in IT Systems and Technology may not be achieved as anticipated.
 - There is a risk that the level of rental income from private sector housing may be lower than budget due to in year activity.
3. The main areas of pressure within Commissioning are:
 - Lower than expected demand from service provision leading to decreased income from recharges in Commercial and Procurement.

- 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.
 - There is a risk in Governance that charges for legal support do not match budgeted levels, which depend on in-year activity levels.
 - Under recovery of Planning Application Fees due to the impact of COVID-19, continue to see a reduction in income that is greater than forecast at Quarter 1.
4. The main areas of pressure within Resources are:
- Commercial property trading account income targets are being closely monitored but the Council may be affected by bad debt provisions at the year end. This is addressed in the corporate budgets below.
 - The impact of decreased demand from services resulting in decreased income from recharges in People & Organisation
5. The main areas of pressure within Integrated Joint Board (IJB)/Adult Social Care are:
- The impact of COVID-19 will have a continuing effect on all services through the year, in particular the purchase of personal protective equipment and extra care home beds.
 - There is a risk that suppliers may struggle to provide care services as they deal with the effects of COVID-19. To mitigate this risk the IJB are providing additional payments to care providers to ensure continuity of service.
 - Demand for commissioned services in Learning Disabilities and Mental Health & Substance Misuse.

The Urgent Business Committee on 30 June 2020 instructed the Chief Officer – Finance to report the details of the IJB recovery plan to the City Growth & Resources Committee.

The Council received a report from the IJB that was presented at a meeting of the Integration Joint Board on 11 August 2020 detailing the financial position for Quarter 1 that was known at that time. The position of the IJB as at 30 June 2020 was an overspend position of £11.4m, comprising direct costs of Covid-19 - £7.6m, and indirect costs of Covid-19 - £3.5m. A prudent approach was taken to forecasting the level of additional income to be received by the Scottish Government for the cost implications of Covid-19, and only income that had been received was accounted for in this forecast.

The decision of the Board at that time was to defer any specific action until the funding position was understood. Further information was expected from the Scottish Government at the end of September 2020.

On the 29 September 2020, the IJB received details of further funding of £9.1m allocated to them. This does not cover all mobilisation costs identified. The Scottish Government requested that further information be provided to them following Quarter 2, and they will revisit the funding requirements at this time.

The IJB and NHS Grampian both continue to rely on the commitment provided by Scottish Government Ministers that ultimately all costs will be covered by additional funding. On this basis the IJB continues to forecast a break- even position.

6. 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 during 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 under budget mainly due to the demand for teaching staff at this time, and this differs from the forecast made at quarter 1. Additional funding has also been allocated to the Council to enable increased teacher and teaching support to be delivered during school year 2020/21.

The Council continues to limit external recruitment of employees only to critical posts where there was a clear and pressing need for resources relating to the COVID-19 response or public health and protection and teaching and the resources cannot be found either from temporary or permanent internal movement.

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, flooding and prolonged adverse winter weather that can increase costs particularly in the second half of the year.

7. The bad debt provision has been updated to take account of latest data, which shows a significant increase in the value of general invoices that remain unpaid. This budget sits within Council Expenses and is under regular review. The council has now reinstated income recovery processes that are expected to have an impact on collection levels and therefore bad debt calculations in the second half of 2020/21.
8. The Joint Boards budget and forecast outturn is based on the amount requisitioned by Grampian Valuation Joint Board and is on budget.
9. 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. Reduced expenditure on capital financing costs is helping to compensate for the additional bad debt costs and lack of staff savings that have been forecast.
10. 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. Due to COVID-19 the Scottish Government has made extra reliefs available to the Retail, Hospitality and Leisure sectors to non-domestic properties from 1 April 2020 to 31 March 2021. Wherever possible the Council has applied the relevant reliefs, but minor adjustments continue to be made based on contact with ratepayers.
11. The General Revenue Grant is set by the Scottish Government as part of its funding support package. This has increased by £6.774m since quarter 1 due to additional funding relating to Covid-19 announcements. The final value may change further during the year as and when the UK and Scottish Governments announce further funding to support local authorities through ongoing restrictions.
12. Council Tax income is anticipated to be on budget for the year, with an increased allocation of funding for the Council Tax Reduction Scheme in 2020/21 and careful consideration is being given to the level of bad debt that might arise at the year end.

13. The budget approved at Urgent Business Committee on 30 June 2020 agreed to use reserves of £119k to support revenue expenditure. This will be taken from three former earmarked reserves.

Housing Revenue Account

14. The overall HRA budget is balanced however there are a number of significant variances as reported to UBC in June 2020. These are in the areas of an increase in repairs and maintenance costs, the need to recognise increased bad debt and housing voids. The higher cost is offset by a reduced contribution to Capital from Current Revenue (CFCR).

Earmarked Reserves

The Council holds over £25m of earmarked reserves across the General Fund and HRA and expenditure is estimated to be incurred over a period of years. In 2020/21 the Urgent Business Committee agreed the release three sums totalling £119k to support the 2020/21 budget rebalance.

Expenditure in relation to the delivery of other specific projects, funded by the earmarked reserves is not included in the figures in the tables above. The Council expects to incur significant expenditure from the Transformation Fund in 2020/21 progressing the digital programme of transformation. As at 30 September 2020 £1.1m has been spent on staff and partner contracts and commitments show that expenditure during the year will increase spend towards the full use of remaining funds (£3.455m).

Similarly progress in using the Pupil Equity Funding has been invested to support closing the attainment gap through addressing digital exclusion and it is estimated that the full value of £0.925m will be used in 2020/21.

The other significant earmarked reserve to draw attention to at this time is the Second & Long-term Empty Properties reserve (£12.736m), which is set aside for affordable housing. It is estimated that the income to this reserve, received annually from Council Tax, may be lower than previous years due to the impact of the pandemic however this will be reviewed again for the Quarter 3 reporting. Expenditure in 2020/21 will depend on the progress with the Summerhill and Wellheads developments as funding is committed to these schemes to support the delivery of additional social housing by the Council.

Balancing the Budget through Controls and Monitoring Structures

Specific actions to ensure a balanced budget include:

- Ongoing review and analysis of the Covid-19 impact on council budgets, income in particular and costs associated with protecting customers and staff.
- Detailed and 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. The Chief Officers for People & Organisation and Finance following consultation with the Convener of City Growth and Resources Committee, are currently approving any externally advertised vacancies.
- 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.
- Monitoring and management of council long-term debt in light of the agreed policy and capital spend forecasts for 2020/21.
- 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 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 Data & Insight.

This Control Board focuses 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 regularly, 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 & Organisation and Data & Insight 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 daily. The main risk to the Council remains the impacts of COVID-19 both as reported to Urgent Business Committee on 30 June 2020 and the emerging / changing nature of the easing and tightening of restrictions that are continuing to apply at different times and to different levels in different parts of the country.

Contingent Liabilities are noted to try and capture potential liabilities which could result in costs being incurred in the future. As part of the budget process, contingent liabilities are reviewed and described within the budget pack presented to Council. 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 the General Fund is a £4.95m deficit and the Housing Revenue Account is a balanced position, and this is captured in the tables set out below.

General Fund Financial Reporting Summary 2020/2021 - Quarter 2

As at 30 September 2020	Budget 2020/2021	Outturn 2020/2021 Quarter 2	Variance from Budget		Notes
	£'000	£'000	£'000	%	
Operations	269,225	272,375	3,151	1.2	1
Customer	38,787	39,156	369	1.0	2
Commissioning	22,176	23,206	1,030	4.6	3
Resources	6,000	5,830	(170)	(2.8)	4
Integrated Joint Board	92,468	92,468	(0)	(0.0)	5
Total Functions Budget	428,656	433,036	4,380	4	
Contingencies	(11,962)	(7,470)	4,492	(0.4)	6
Council Expenses	3,122	5,817	2,695	0.9	7
Joint Boards	1,831	1,831	0	0.0	8
Miscellaneous Services	50,871	46,028	(4,843)	(0.1)	9
Total Corporate Budgets	43,862	46,205	2,344	0	
Non Domestic Rates	(164,415)	(164,415)	0	0.0	10
General Revenue Grant	(179,587)	(181,361)	(1,774)	1.0	11
Government Support	(344,002)	(345,776)	(1,774)	0.5	
Council Tax	(128,396)	(128,396)	0	0.0	12
Local Taxation	(128,396)	(128,396)	0	0.0	
Contribution from Reserves	(119)	(119)	0	0.0	13
Contribution from Reserves	(119)	(119)	0	0.0	
Deficit/(Surplus)	(0)	4,950	4,950	0.0	

Housing Revenue Account Summary 2020/2021 - Quarter 2

Deficit/(Surplus)	(500)	(500)	(0)	0	14
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General Fund Capital Programme

As at Period 6 2020/21	Gross Figures for 2020/21						
	Original Approved Budget	Adjustments & Carry Forwards	Revised Budget	Expenditure to Date	Forecast Outturn	Variance	Outturn Variance from Revised Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
AECC Programme Board	3,500	11,246	14,746	1,796	14,746	(12,950)	0
Asset Management Programme Board	57,161	3,995	61,156	7,911	50,484	(53,245)	(10,672)
Asset Management Programme Board Rolling Programmes	31,701	2,877	34,578	4,599	13,808	(29,979)	(20,770)
City Centre Programme Board	20,808	(1,958)	18,850	4,094	15,850	(14,756)	(3,000)
Energy Programme Board	33,804	(7,213)	26,591	2,335	33,525	(24,256)	6,934
Housing and Communities Programme Board	1,524	600	2,124	214	2,124	(1,910)	0
Housing and Communities Programme Board Rolling Programmes	956	(556)	400	103	400	(297)	0
Transportation Programme Board	25,022	(570)	24,452	1,373	13,113	(23,079)	(11,339)
Transportation Programme Board Rolling Programmes	3,602	391	3,993	118	2,000	(3,875)	(1,993)
Strategic Asset & Capital Plan Board	5,482	1,019	6,501	485	4,054	(6,016)	(2,447)
Strategic Asset & Capital Plan Board Rolling Programmes	2,368	0	2,368	185	2,368	(2,183)	0
Developer Obligation Projects & Asset Disposals	0	0	0	135	51	135	51
Total Expenditure	185,928	9,831	195,759	23,347	152,523	(172,412)	(43,236)
Capital Funding:							
Income for Specific Projects	(69,479)	18,970	(50,509)	(9,540)	(34,499)	40,969	16,010
Developer Contributions	0	0	0	(51)	(51)	(51)	(51)
Capital Grant	(18,654)	0	(18,654)	(9,246)	(18,654)	9,408	0
Other Income e.g. Borrowing	(97,795)	(28,801)	(126,596)	(4,509)	(99,319)	122,087	27,277
Total Income	(185,928)	(9,831)	(195,759)	(23,347)	(152,523)	172,412	43,236

The closure of construction sites in compliance with government guidance for responding to the Covid-19 Pandemic meant very little physical progress was achieved on projects during the first quarter of 2020/21.

The Council was in continued contact with contractors throughout this period of shutdown. It became evident that this period, combined with the new working practices to be adopted on the easing of lockdown, has introduced time and cost pressures on all parties. These pressures are extremely difficult to quantify but initial assessments have been made and will continue to be refined in conjunction with the contractors. Now works have re-commenced, it is the intention that for each project as we are able to understand the time and cost implications, we will report this back to the relevant committee.

As reported to Capital Programme Committee in September, it is currently assumed:

- Most projects will be delayed;
- It is difficult to predict when each project will be delivered;
- The contracting parties continue to discuss how to apportion additional costs incurred during the shutdown period with contractors; and
- Project costs are likely to increase following construction re-start (e.g. demobilisation, remobilisation, security, PPE, etc.).

The approach for the initial review of the programme was based on the categories used in the original budget report:

- Rolling Programmes: these will experience a significant reduction in spend this financial year because of works being ceased, delays within the supply chain (for example, vehicle replacement) and seasonal works being unable to progress (for example roads works);
- Legally Committed Projects: re-profiling is ongoing, but indicative outturns are shown. Consideration was given to stopping these projects, but the revenue implications would prove to be inhibitive with large costs being incurred and no asset at the end;
- Partially Legally Committed Projects: These are projects that have some level of commitment against them but still have significant scope to not be progressed;

- Projects with indicative budgets: These are projects that are currently in their infancy in terms of total spend and the level of commitment for the Council to progress.

The forecast outturns for Quarter 2 represent a point in time in this programme review process and are strongly influenced by the time lost to projects which were on already on-site during lockdown, or had been expected to be. The work to reprofile project finances is on-going, and these reviews will have to continue as the continuing impact of the pandemic manifests itself, with the risk of further lockdowns, within projects. It is accepted that this will be very difficult to predict both in terms of project cost and risk transfer.

Housing Capital Programme

As detailed above in the General Fund Capital programme Covid-19 Pandemic has meant very little physical progress was achieved on projects during the first quarter of 2020/21. This is due to sites being closed for the New Homes Programme and constraints around undertaking work in tenant's houses.

Assumptions have been made on the likely profile of spend during 2020/21 splitting out the categories between the rolling programme and new build. The rolling programme has experienced significant delays due to COVID-19 with Building Services responding only to emergency works and voids. As detailed in the Capital Programme Committee progress reports on the various new build programmes work has restarted on both the Wellheads and Summerhill sites, a three-month delay has been factored into forecast. Ongoing monitoring of all projects is undertaken throughout the year, as the year progresses the impact on the programme will become clearer.

Housing Capital Programmes	Approved Budget	Expenditure to date	Forecast Expenditure
As at 30 September 2020	£'000	£'000	£'000
Compliant with the tolerable standard	1,435	240	1,435
Free from Serious Disrepair	10,479	1,611	5,752
Energy Efficient	10,863	1,977	4,156
Modern Facilities & Services	2,385	71	596
Healthy, Safe and Secure	5,004	615	2,093
<i>Non Scottish Housing Quality Standards</i>			
Community Plan and Local Outcome Improvement Plan	4,295	935	825
Service Expenditure	4,011	205	4,011
2000 New Homes Programme	31,358	11,409	27,234
	69,830	17,063	46,102
less 11% slippage	(7,681)		
Net Programme	62,149	17,063	46,102

Capital Funding			
Borrowing	(22,991)	0	(13,444)
Second Homes/Council Tax funding	(9,306)		(9,306)
SG Grant - Buy Back/New Build	(5,500)		(5,500)
Capital Funded from Current Revenue	(24,352)	(17,063)	(17,852)
Total	(62,149)	(17,063)	(46,102)

Common Good

As at 30 Sept 2020	Full Year Budget 2020/21 £'000	Actual Expenditure £'000	Variance from Budget £'000
Recurring Expenditure	2,879	3,168	289
Recurring Income	(3,678)	(3,678)	0
Budget after Recurring Items	(799)	(510)	289
Non Recurring Expenditure	360	904	544
Non Recurring Income	0	0	0
Net (Income)/Expenditure	(439)	394	833
Cash balances as at 1 April 2020	(30,299)	(30,299)	
Net (Surplus)/Deficit for year to date	(439)	394	
Net Capital Receipt		(3,970)	
Cash Balances as at 30 September 2020	(30,738)	(33,875)	
Recommended Cash Balances	(30,017)	(33,870)	

Notes

- There are various areas of underspend due to the cancellation of many events across the City, such as the Highland Games, Tour of Britain, Civic Receptions and the annual Fireworks Display because of the Covid pandemic.
- Additional costs include the expenditure approved by the Urgent Business Committee on 6 May 2020 and 30 June 2020:
 - a. Lord Provosts Charitable Trust donation - £100k
 - b. Financial support to the fund activities as part of rebalancing the General Fund budget for 2020/21 - £706k
- Additional costs have been experienced in the property portfolio held by the Common Good, including non-domestic rates.
- Income is forecast to remain on budget although the level of outstanding invoices is being reviewed regularly to assess the level of risk of non-payment.