PROJECTED FINANCIAL POSITION FOR THE YEAR 2020/21

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MANAGEMENT COMMENTARY

This is the third 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 31 December 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 lockdowns have 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.

Since the quarter 2 financial performance report, the value of funding from the Income Loss Scheme has been confirmed at £3.6m, helping to address the deficit that was forecast at that time.

The quarter 3 forecast for the year is a deficit of £2.6m.

The forecasts for the year are built on information that was known as at 31 December 2020. It has been anticipated that there will be a further deterioration of council income on the back of increased restrictions in Scotland, and this has been estimated where possible, and it is likely that further analysis will be required to identify the full effect in the final quarter.

Furthermore, in the final quarter, there is an additional cost for the winter maintenance programme due to the weather conditions in January. Contingencies are in place to address such spend if necessary and the scale will only be clear at year end.

In common with recent years there are a range of other 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 below 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.

No account has been taken of the fiscal flexibilities that were announced by the Scottish Government in October 2020. They included use of capital receipts to cover Covid-19 costs – this is not available to the Council due to using capital receipts for voluntary severance / early retirement scheme costs and transformation. Debt repayment on service contracts continues to be discussed between Cosla and Scottish Government and finalised guidance has not been issued. When this is finalised, the implications will be able to be considered. The final flexibility was deferral of debt principal repayment for a single year, and this should not be considered until the service contract guidance has been issued.

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 expected to impact on income,
- Continued reduction in income from, for example, Car Parking due to COVID-19 restrictions.
- 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 Homeless Flats may be lower than budget due to the levels of 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 and the beach ballroom have been revised at Quarter 3 to reflect reduced trading resulting from the COVID-19 restrictions.
- 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 which has increased from that forecast at Quarter 2.

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 changing demand from services resulting in decreased income from recharges for 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.

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 28 October 2020 detailing the financial position for Quarter 2 that was known at that time. The position of the IJB as at 30 September 2020 was an overspend position of £11.7m, comprising direct costs of Covid-19 - £6.7m, indirect costs of Covid-19 - £3.2m, under spend on mainstream budgets – £0.5m and new indirect and direct costs of COVID-19 - £2.2m. 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. Income to a value of £5.4m was due to be received in October 2020.

The Scottish Government have confirmed that additional funding will be provided to cover the costs of COVID-19 but until all the funding is distributed and the final financial position is known there remains a risk of overspend, particularly given the move into the second phase of providing services during the COVID pandemic. On this basis the IJB continues to forecast a break- even position, and the Council continues to rely on it. The IJB will receive a financial update at its meeting on 27 January 2021.

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. It is noted that 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, which is being experienced as referred to above.

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 reinstated income recovery processes and will monitor closely towards the year end position.

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 incudes 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 reduced 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 £2.357m since quarter 2 due to additional funding relating to Covid-19 announcements this includes the Income recovery scheme, £3.6m. 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 as collection levels are lower than previous years.

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 to 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 31 December 2020 £1.68m 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. Expenditure in 2020/21 will depend on the progress with the Summerhill and Wellheads developments and the amount of Section 75 income (developers' contributions) to be used as this funding is time limited, these schemes 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 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 was undertaken and remains under close scrutiny.
- 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. Funding for this is provided by capital receipts.

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 Performance Board has oversight of the financial performance reporting, this is co-chaired by the Directors of Resources and Chief Operating Officer and brings together the emerging and escalated issues from overall financial performance and agrees actions.

Balancing the Budget through the monitoring and control of risks.

Risks are reviewed on a regular basis at a strategic level by the Risk Board 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. At the time of writing risks around leaving the European Union have not proved to be financially significant, but awareness and work with the Commercial and Procurement Service are vital in tracking potential financial exposure in the future.

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 £2.6m 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 3

As at 31 December 2020	Budget 2020/2021	Outturn 2020/2021 Quarter 3	Variance from Budget		Notes
	£'000	£'000	£'000	%	
Operations	268,077	272,349	4,272	1.6	1
Customer	39,146	40,096	950	2.4	2
Commissioning	21,943	23,503	1,560	7.1	3
Resources	5,779	5,607	(172)	(3.0)	4
Integrated Joint Board	92,468	92,468	0	0.0	5
Total Functions Budget	**427,413**	**434,023**	**6,610**	**1.5**	
Contingencies	(10,386)	(6,023)	4,363	(42.0)	6
Council Expenses	3,122	5,824	2,702	86.6	7
Joint Boards	1,831	1,567	(264)	(14.4)	8
Miscellaneous Services	50,538	43,836	(6,702)	(13.3)	9
Total Corporate Budgets	**45,105**	**45,204**	**99**	**0.2**	
Non Domestic Rates	(164,415)	(164,415)	0	0.0	10
General Revenue Grant	(179,587)	(183,718)	(4,131)	2.3	11
Government Support	**(344,002)**	**(348,133)**	**(4,131)**	**1.2**	
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)**	**2,578**	**2,578**	**0.0**	

Housing Revenue Account Summary 2020/2021 - Quarter 3

Deficit/(Surplus)	**(500)**	**(500)**	**(0)**	**0**	**14**

General Fund Capital Programme

	Gross Figures for 2020/21				
As at Period 9 2020/21	**Revised Budget £'000**	**Expenditure to Date £'000**	**Forecast Outturn £'000**	**Variance £'000**	**Outturn Variance from Revised Budget £'000**
AECC Programme Board	14,746	3,407	5,608	(11,339)	(9,138)
Asset Management Programme Board	61,156	16,528	31,860	(44,628)	(29,296)
Asset Management Programme Board Rolling Programmes	34,578	8,866	12,158	(25,712)	(22,420)
City Centre Programme Board	18,850	6,897	11,562	(11,953)	(7,288)
Energy Programme Board	26,591	11,882	31,525	(14,709)	4,934
Housing and Communities Programme Board	2,124	222	346	(1,902)	(1,778)
Housing and Communities Programme Board Rolling Programmes	400	271	400	(129)	0
Transportation Programme Board	24,452	2,062	5,823	(22,390)	(18,629)
Transportation Programme Board Rolling Programmes	3,993	118	1,000	(3,875)	(2,993)
Strategic Asset & Capital Plan Board	6,501	782	2,351	(5,719)	(4,150)
Strategic Asset & Capital Plan Board Rolling Programmes	2,368	335	868	(2,033)	(1,500)
Developer Obligation Projects & Asset Disposals	0	241	133	241	133
Total Expenditure	**195,759**	**51,611**	**103,634**	**(144,148)**	**(92,125)**
Capital Funding:					
Income for Specific Projects	(50,509)	(16,541)	(28,832)	33,968	21,677
Developer Contributions	0	(118)	(133)	(118)	(133)
Capital Grant	(18,654)	(13,870)	(18,654)	4,784	0
Other Income e.g. Borrowing	(126,596)	(21,083)	(56,015)	105,513	70,581
Total Income	**(195,759)**	**(51,611)**	**(103,634)**	**144,148**	**92,125**

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 initial easing of lockdown, introduced time and cost pressures on all parties. Discussions to quantify these pressures progressed throughout the remainder of 2020, though these remain complex with evolving issues due to the changing position with regards to the response to the Covid-19 Pandemic. A second lockdown across mainland Scotland began on 5 January 2021, though construction sites were allowed to remain open.

It is the intention that as officers understand the time and cost implications in relation to each project they will be reported to the relevant committee. Capital Programme Committee received the report “Covid-19 Pandemic Impact on the Capital programme” in September 2020. This outlined the general assumptions made around programme delivery and apportionment of costs resulting from either the original shutdown period, or construction restart (e.g.de-mobilisation, remobilisation, security, PPE etc.).

Capital Programme Committee has also received reports to date on the following projects:
- Expansion of Early Learning & Childcare (a programme consisting of 27 individual projects)
- Energy from Waste
- South College Street Improvements
- Union Terrace Gardens Refurbishment
- Provost Skene House Refurbishment

- New Schools Programme (Replacement Riverbank Primary, Replacement Milltimber Primary, and new Torry Primary and Community Hub)

These updates have outlined any contractual agreements reached and those that are on-going with the relevant contractors.

The approach for the on-going review of the Capital Programme is based on the categories used in the original budget report:

- **Rolling Programmes:** these are expected to 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). Proposed financial re-profiling of future works and projects will be presented to the Council's Budget meeting in March.

- **Legally Committed Projects:** re-profiling continues, and 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. Projects engaging in on-site civil engineering works such as the current phases of Union Terrace Gardens or the Energy from Waste facility have generally found compliance with Covid-19 guidelines and social distancing of the workforce less restrictive than projects undertaking works within existing buildings. However, it should be noted that even these projects are incurring additional costs in mitigating Covid-19 impacts.

- **Partially Legally Committed Projects:** These are projects that have some level of commitment against them but still have significant scope to not be progressed. Recent experience of tender returns from the construction market has demonstrated a step change upwards in pricing, if tender returns are received at all. The sector is believed to be under increasing resource pressure, in terms of both labour and materials, because of the volume of projects now coming to market. This is combined with losing time to the original lockdown, and nervousness around supply chain and workforce capacity generated by new trade arrangements coming into force following the end of the UK's transition period for leaving the European Union.

- **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. These project estimates will need to be reviewed in light of the issues outlined above.

The forecast outturns for Quarter 3 represent an updated point in time in this programme review process. It has become apparent during these reviews that cost implications may not fully manifest before the end of 2020/21, and discussions will have to continue into 2021/22 and possibly even future years. These challenges will be strongly influenced by the time lost to projects which were on already on-site during lockdown or had been expected to be. 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 the Housing Capital programme has experienced similar issues with the response to the COVID-19 pandemic. Sites for the New Homes Programme were closed for 3 months during the first lockdown and there continues to be 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 with only a brief respite to this arrangement. Work on windows, kitchens and bathrooms has now stopped in 2020/21 and the programme will be rolled forward into 2021/22.

Housing Capital Programmes	Approved Budget	Expenditure to date	Forecast Expenditure
As at 31 December 2020	**£'000**	**£'000**	**£'000**
Compliant with the tolerable standard	1,435	508	1,435
Free from Serious Disrepair	10,479	2,561	4,194
Energy Efficient	10,863	3,400	4,156
Modern Facilities & Services	2,385	177	596
Healthy, Safe and Secure	5,004	1,531	2,093
Non Scottish Housing Quality Standards			
Community Plan and Local Outcome Improvement Plan	4,295	1,326	825
Service Expenditure	4,011	308	4,011
2000 New Homes Programme	31,358	22,568	28,792
	69,830	**32,380**	**46,102**
less 11% slippage	(7,681)		
Net Programme	**62,149**	**32,380**	**46,102**

Capital Funding			
Borrowing	(22,991)	(14,070)	(13,444)
Second Homes/Council Tax funding	(9,306)	0	(9,306)
SG Grant - Buy Back/New Build	(5,500)	(320)	(5,500)
Capital Funded from Current Revenue	(24,352)	(17,990)	(17,852)
Total	(62,149)	**(32,380)**	**(46,102)**

Common Good

As at 31 December 2020	Full Year Budget 2020/21 £'000	Actual Expenditure £'000	Variance from Budget £'000
Recurring Expenditure	2,879	3,116	237
Recurring Income	(3,678)	(3,678)	0
Budget after Recurring Items	**(799)**	**(562)**	**237**
Non Recurring Expenditure	360	919	559
Non Recurring Income	0	0	0
Net (Income)/Expenditure	**(439)**	**357**	**796**
Cash balances as at 1 April 2020	**(30,299)**	**(30,299)**	
Net (Surplus)/Deficit for year to date	(439)	357	
Net Capital Receipt		(3,970)	
Cash Balances as at 31 December 2020	**(30,738)**	**(33,912)**	
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.