

## ABERDEEN CITY COUNCIL

---

<b>COMMITTEE</b>	City Growth and Resources
<b>DATE</b>	3 February 2021
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Council Financial Performance – Quarter 3, 2020/21
<b>REPORT NUMBER</b>	RES/21/037
<b>DIRECTOR</b>	Steven Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Lesley Fullerton
<b>TERMS OF REFERENCE</b>	1.2

---

### 1. PURPOSE OF REPORT

- 1.1 To provide the financial position of the Council as at Quarter 3 (31 December 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 3 as detailed in Appendix 1;
- 2.2 Note the Common Good financial performance to the end of Quarter 3 as detailed in Appendix 3;
- 2.3 Consider the General Fund position, as detailed in Appendix 2, and agree the actions recommended by the Chief Officer – Finance, in advice detailed at paragraph 3.20 of the report;
- 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 (General Fund and Housing) for the year is going to be significantly lower than budget, for the reasons described in

Appendix 2; and that project budgets will have to be carried forward into 2021/22.

### **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 2. 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, this remains the position with restrictions reintroduced at the start of quarter 4.
- 3.4 This report focuses on both the financial performance for the year to 31 December 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 3 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 At quarter 2, the forecast for the year was a deficit on the General Fund of £5m. Further funding has been clarified in respect of the Income Loss Scheme and 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 now forecast a General Fund deficit of £2.6m.

3.8 Key aspects that have changed since quarter 2:

- Government grant funding has increased by £3.62m, our share of the £90m Loss of Income scheme to be distributed by the Scottish Government at the end of March, based on income losses in the first half of the year only. This funding can be used to support Council expenditure generally
- Confirmation of funding under the Teachers Induction Scheme has resulted in a lower-than-expected allocation and this has reduced the overall level of General Revenue Grant
- With new restrictions in place from the end of quarter 3 and national restrictions coming into effect from January 2021 there is further impact on income streams, such as event spaces and galleries, where income had been forecast in the final quarter. These forecasts have been updated to take account of the continued closure. The restrictions also impact on car parking income and there remains risk in respect of planning and building fees.
- This has been included as part of 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.
- Grant funding for specific purposes, support to schools, to businesses, for free school meals has been treated as ring-fenced and applicable to covering specific costs incurred. Details of the latest information on grants is included in Appendix 1.
- 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 3, with additional funding received in October. 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. The Council continues to rely on this.

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 final quarter of the year. 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.
- 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 current winter maintenance programme in response to the weather is expected to drawdown a proportion of this budget. The Risk Board routinely reviews the risk registers, and the Chief Officer - Finance tracks the contingent liabilities.
- 3.13 I have issued the annual accounts year end instructions and final ordering should now have been substantially closed, with focus now on critical and essential items and perishable goods in the final quarter, so expenditure will be managed to the lowest values as we move on from the quarter 3 position.
- 3.14 As referenced above, a deficit of £2.6m is currently forecast based on this latest data.
- 3.15 Solutions may come from several sources, with contingencies providing the fallback position provided they remain uncommitted.
- 3.16 I referenced in my Quarter 2 report that financial flexibilities had been confirmed by the Scottish Government, to provide additional levers for local authorities over the course of this and next year. Further detail was required to understand the potential opportunities for the Council and where possible this has been updated below to reflect the latest position. No financial benefit has been included in the Quarter 3 forecasts in relation to these flexibilities.
- 3.17 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 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. The preparation of the, required, statutory guidance remains in progress with dialogue taking place between Cosla, Directors of Finance and Scottish Government to clarify the details of how this would be implemented. I have obtained advice on the draft guidance and this has raised questions that need to be clarified, so until this guidance is issued it is not possible to determine the implications for the Council. I will continue to follow developments and assess the implications in due course.

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. While the council should aim to avoid this flexibility as it will add revenue pressure to the medium to long-term financial scenarios, the statutory guidance that was consulted on in December 2020 provides the mechanism to undertake this transaction.

3.18 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.

3.19 In relation to applying these in 2020/21 I would update my advice with 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 once the statutory guidance is clear the implications should be established and where applicable implement the guidance at the appropriate time.
3. Loans Fund repayment holiday, I do not recommend this 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.

3.20 The Council forecast in this report for the General Fund requires us to remain active in closing the deficit and I would advise:

1. That the value of £2.6m can, in my opinion, be addressed in the final quarter through naturally reducing expenditure in the final quarter based on ordering of goods and services falling, as required by the year-end instructions. This, alongside the prioritisation of critical and essential supplies will target spend where specific grant funding is provided to cover the cost. And the full value of in-year contingencies, around £3m, has not been committed providing a degree of flexibility should other costs emerge or providing assurance that the known deficit can be covered if they are not needed.
2. That notwithstanding the potential to balance the budget, that I write to Cosla officers to update them on the continuing forecast deficit and requesting further engagement with the Scottish Government to increase funding, to meet the cost implications of the Covid-19 pandemic on the Council.
3. That once the statutory guidance on the credit agreements flexibility option has been finalised by the Scottish Government that I determine the impact and implement, at the appropriate time, beneficial changes to our accounting practices available under this option; and if this is not practical to consider the third flexibility (debt principal repayment holiday) and where necessary implement this to manage the year end position.

- 3.21 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, as the continuing impact of the pandemic manifests itself, with the realisation of further restrictions again changing the operating environment. Construction remains open at the time of writing but progress on all projects will continue to be affected on a site by site basis through the final quarter.
- 3.22 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.
- 3.23 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.
- 3.24 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. During the quarter the Chief Officer – Finance, used delegated powers to approve the addition of a new investment instrument to the Council’s List of Permitted Investments, that of Multi-Asset Funds. This was for the purposes of exploring the options to revise the investment of the cash balances held by the Common Good. No investment decision has been made as this will be for Council to determine when the Chief Officer – Finance reports back as instructed.
- 3.25 Summary of Appendices

1. The financial statements reflect the income and expenditure of the General Fund and Housing accounts for the period to 31 December 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 31 December 2020 is positive as the profile of income from Scottish Government and Council Tax collection levels support expenditure levels.

The Balance Sheet figures at 31 December 2020 overall increase in net worth of the Council to £1.3 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 forecasts indicate that the General Fund will overspend by £2.6m and will continue to manage cost pressures across the whole portfolio of services, whilst all other revenue accounts are expected to be on budget. Capital investment

is forecast to be approximately £196 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 31 December 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, November 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:

<b>Revenue</b>	<b>2020/21 Budget £'000</b>	<b>2020/21 Forecast (Surplus) / Deficit exc. Group £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	0	2,578	2,578
HRA	(500)	(500)	0
Common Good	(439)	357	796

- 4.2 The capital position can be summarised as follows:

<b>Capital</b>	<b>2020/21 Budget £'000</b>	<b>2020/21 Forecast Expenditure £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	195,759	103,634	(92,125)
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:

<b>Usable Reserves</b>	<b>Balance at 31 March 2020 £'000</b>	<b>Balance at 31 December 2020 £'000</b>	<b>Movement £'000</b>
----------------------------	---	--	---------------------------

General Fund	(35,294)	(91,166)	(55,872)
HRA	(12,808)	(12,808)	0
Statutory & Other	(11,860)	(14,037)	(2,177)
<b>Total</b>	<b>(59,962)</b>	<b>(118,011)</b>	<b>(58,049)</b>

## 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
<b>Strategic Risk</b>		L	
<b>Compliance</b>	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.
<b>Operational</b>	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.
<b>Financial</b>	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.
<b>Reputational</b>	There is a risk that through the reduction	M	The Council has continued to address priority spending



	of expenditure the Council may be criticised that spending isn't in line with public expectation of service delivery.		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.
<b>Environment / Climate</b>	None identified		

## 7. OUTCOMES

<b><u>COUNCIL DELIVERY PLAN</u></b>	
<b>Impact of Report</b>	
<b>Aberdeen City Council Policy Statement</b>	<i>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.</i>
<b>Aberdeen City Local Outcome Improvement Plan</b>	
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

<b>Assessment</b>	<b>Outcome</b>
<b>Impact Assessment</b>	not required
<b>Data Protection Impact Assessment</b>	not required

## 9. BACKGROUND PAPERS

None.

## 10. APPENDICES

Appendix 1 – Financial Statement for the period ending 31 December 2020  
2020

Appendix 2 – Forecast Financial Position for the year 2020/21

Appendix 3 – Common Good Financial Statement for the period ending 31  
December 2020

Appendix 4 – Group Entities Forecast Financial Position for the year 2020/21

## 11. REPORT AUTHOR CONTACT DETAILS

<b>Name</b>	Jonathan Belford
<b>Title</b>	Chief Officer - Finance
<b>Email Address</b>	jbelford@aberdeencity.gov.uk
<b>Tel</b>	01224 523127

<b>Name</b>	Lesley Fullerton
<b>Title</b>	Finance Operations Manager
<b>Email Address</b>	lfullerton@aberdeencity.gov.uk
<b>Tel</b>	01224 346402