



**PROJECTED FINANCIAL POSITION
FOR THE YEAR 2021/22**

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MANAGEMENT COMMENTARY

This is the first reporting point in the year for the Council's finances, following approval of the budgets in March 2021. The full year budgets reflected in the table below differ from those set by Council in March 2021 for a number of reasons. This is normal practice during the year as variances are identified and budget responsibilities change. In common with recent years there are pressures on the organisation that emerge during the year and to which the Council has to respond with the impact of COVID -19 still be experienced in areas such as income and Education recovery. 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 an underlying commitment from Senior Management to pursue options to mitigate cost pressures and to work with the Chief Officer – Finance to ensure the overall agreed budget is adhered to.

Appendix 1 provides the Income and Expenditure Statement and Balance Sheet of the Council as at 30 June 2021. The forecast for the year is built on the information that was available at this time.

With all of this said, it is clear that 2021/22 is going to be an uncertain year, with major variances in our income and expenditure levels, the Council has sums set aside to address Covid-19 implications and therefore will require to draw on these during the year.

For this reason, the full year forecast for the General Fund at the end of quarter 1 is for a deficit of £13.6m, this being matched by £13.6m of earmarked reserves to result in a balanced budget for 2021/22.

The Housing Revenue Account is on target to meet its budget overall; and the Common Good is expected to achieve a small surplus.

The forecasts for the year are built on information that was known as at 30 June 2021. It has been anticipated that the council's income will remain at levels experienced in May/June however as there is further relaxing of restrictions in Scotland this may improve, further analysis will be required to identify the ongoing effect and to understand if a new normal has been established for medium term planning purposes.

Income received from the Scottish Government for the impact of COVID 19 supports the shortfall in income, and it is estimated that the education recovery funds will be fully utilised in 2021/22.

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:
 - Higher than budgeted spend on Out of Authority Placements this is partly offset by lower spend on the Fostering service. Spend on Out of Authority Placements is lower compared to that in 2020/21 which indicates the service is beginning to return to normal following the COVID-19 restrictions.
 - Reduction in income has continued into 2021/22 for example, Car Parking has not returned to pre pandemic levels, currently estimated on May figures.
 - Building Services will not achieve the budgeted surplus due to the continued social distancing while working within the properties and delays in the supply chain for materials which is partly due to COVID restrictions.

- Within Education there is increased spend on long term absences, under recovery of income from school lets due to COVID restrictions and contributions from other local authorities for special education.
 - Continuing to monitor the teacher recruitment early indications show this a success for the new academic year this will become clearer in August therefore in the second quarter.
2. The main areas of pressure within Customer are:
- 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 to the end of the quarter.
 - Customer is currently in an under spend position from Sistema (Big Noise Torry) as they cannot undertake their planned programme. and from the staffing within the City Wardens.
3. The main areas of pressure within Commissioning are:
- Governance is expecting an under recovery of licencing income.
 - Income from catering services provided by museums and galleries and the beach ballroom have been revised at Quarter 1 to reflect reduced trading resulting from the COVID-19 restrictions this will be closely monitored and amended to reflect any changes.
 - Under recovery of Planning Application Fees due to the impact of COVID-19, continue to see a reduction in income.
4. The main areas of pressure within Resources are:
- Commercial property trading account income has been revised to reflect current conditions this will continue to be monitored closely and the Council may be affected by bad debt provisions at the year end. This is addressed in the corporate budgets below.
5. The main areas of pressure within Integrated Joint Board (IJB)/Adult Social Care are:
- The recovery of the services from the impact of COVID-19 in areas such as extra care home beds.
 - There is a risk that there will be higher than anticipated spend on commissioned services in areas such as homecare providers as more people are choosing to stay in their own properties.

The Integrated Joint Board will receive a report on 24th August 2021 for Quarter 1, the Council continues to depend on the strength of the IJB balance sheet and the continued Scottish Government funding commitment.

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 successful recruitment and retention of teaching staff at this time. The council continue to use additional funding that has also been allocated to enable increased teacher and teaching support to be delivered during school year 2021/22.

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 value of general invoices that remain unpaid. This budget sits within Council Expenses and is under regular review. The council reinstated income recovery processes in 2021 following deferral of action due to the pandemic.
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. This is forecast to be in line with budget.
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 2021 to 31 March 2022. The forecast for amount receivable by the Council is in line with Government distribution information.
11. The General Revenue Grant is set by the Scottish Government as part of its funding support package. This may change during the year as the government announces funding redeterminations. Changes that have been announced, but not yet taken account of due to the timing of allocation information, include services such as free school meals, music tuition, core curriculum subject and extra teachers to support policies to be delivered in the first 100-day plan of the new Scottish Government.

It remains possible, and imperative, that further funding for Covid-19 support should be expected, particularly in relation to the consequential from the Income Loss Scheme that has been in place in England for the last year and was extended to the end of June 2021. No information has yet been made available on this, so the prudent approach of not including any forecast for this potential income stream has been taken.
12. Council Tax income is being collected at an improved rate to 2020/21 but it has not yet achieved the historic levels the Council has benefited from. With over 96% of council tax payers paying their obligations it is forecast that there will be a £5m shortfall against budget for the year, this is based on the reduced collection levels of 2020/21 and provision for bad debt. Additional work is being undertaken to improve collection levels.
13. Use of Reserves. The Council approved in its 2021/22 budget that a sum of £6.5m will be used from earmarked General Fund reserves to fund the budget. The Council expects to draw down all of that approved sum. This will result in a forecast deficit of £13.6m for the year. Further drawdown from the earmarked reserves will be made to balance the budget for 2021/22 and this will be subject to change throughout the remainder of the year.

Housing Revenue Account

14. The overall HRA budget is balanced however there are a number of areas of pressure. These are the potential increase in bad debt and housing voids. The higher costs in these areas would be offset by a reduced contribution to Capital from Current Revenue (CFRC).

Earmarked Reserves

The Council holds over £62.626m of earmarked reserves across the General Fund and HRA and expenditure is estimated to be incurred over a period of years.

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 2021/22 progressing the digital programme of transformation. As at 30 June 2021 £0.101m 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 (£2.479m)

The other significant earmarked reserves to draw attention to at this time is the Second & Long-term Empty Properties reserve (£14.660m), 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 2021/22 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.

As referenced earlier in the report, the earmarked COVID -19 Grants (£33.633m) are for areas such as Education recovery, Income shortfall and General COVID funding. It is anticipated at this stage this funding will be fully utilised to employ additional teachers, support staff within Education, support income shortfalls in such areas such car parking, commercial properties and council tax, essentially using the sums available to balance the budget – and this is subject to the ongoing review and further refinement of spending and income forecasts in line with Council financial management arrangements.

Balancing the Budget through Controls and Monitoring Structures

Specific actions that will continue, to manage spending and work towards reducing the operating deficit 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.
- Ongoing review and scrutiny of the out of authority placements for children by the Chief Officer – Integrated Children's Services.
- 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 2021/22.
- 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 for revenue expenditure 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.

Similarly, 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 recovery from the impacts of COVID-19 and the planned easing of restrictions that are continuing to apply, subject to timings, levels differing across the country.

It is predicted that the increased cost of supplies and services in the trades maybe a significant risk in areas such as Building Services and Roads.

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 an operational £13.6m deficit will have to be supported by funding carried forward and earmarked as part of the Councils General Fund Reserve, to achieve a balanced budget for the year. The Housing Revenue Account is a balanced position, and this is captured in the tables set out below.

General Fund Financial Reporting Summary 2021/2022 - Quarter 1

As at 30 June 2021	Budget 2021/2022	Outturn 2021/2022 Quarter 1	Variance from Budget		Notes
	£'000	£'000	£'000	%	
Operations	265,247	270,803	5,557	2.1	1
Customer	37,720	37,326	(394)	(1.0)	2
Commissioning	23,331	24,124	793	3.4	3
Resources	2,339	5,306	2,967	126.9	4
Integrated Joint Board	95,184	95,184	0	0.0	5
Total Functions Budget	423,821	432,743	8,922	2.1	
Joint Boards	1,845	1,845	0	0.0	6
Miscellaneous Services	51,041	51,074	34	0.1	7
Contingencies	(1,828)	(1,788)	41	(2.2)	8
Council Expenses	4,913	4,518	(395)	(8.0)	9
Total Corporate Budgets	55,971	55,650	(321)	(0.6)	
Non Domestic Rates	(202,923)	(202,923)	0	0.0	10
General Revenue Grant	(141,470)	(141,470)	0	0.0	11
Government Support	(344,393)	(344,393)	0	0.0	
Council Tax	(128,899)	(123,899)	5,000	(3.9)	12
Local Taxation	(128,899)	(123,899)	5,000	(3.9)	
Contribution from Reserves	(6,500)	(6,500)	0	0.0	13
Contribution from Reserves	(6,500)	(6,500)	0	0.0	
Deficit/(Surplus)	(0)	13,601	13,601	0.0	

Housing Revenue Account Summary 2021/2022 - Quarter 1

Deficit/(Surplus)	(500)	(500)	(0)	0	14
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Note – the deficit of £13.6m will be covered by a further contribution from earmarked reserves as described in Note 13 above

General Fund Capital Programme

As instructed by the report RES/21/111 – Council Financial Performance – Quarter 4 2020/21, this update incorporates the outcomes of the completed financial year into the refreshed programme for 2021/22 to 2024/25.

The Capital Programme also now includes additional projects following confirmation of external funding awards:

- £1.409 million from the Regeneration Capital Grant Fund for the redevelopment of Victoria Road School by Torry Development Trust across 2021/22 and 2022/23;
- £0.975 million from the Place Based Investment Fund for 2021/22;
- £12.030 million for the Bus Partnership Fund across 2021/22 and 2022/23;
- £0.345 million to continue preparations in 2021/22 for the Low Emissions Zone;
- Officers have also submitted a bid to the Levelling Up Fund and are awaiting a formal decision, which is not expected until the Autumn.

As at Period 3 2021/22	2021/22					
	Original Approved Budget	Adjustments & Carry Forwards	Revised Budget	Expenditure to Date	Forecast Outturn	Outturn Variance from Revised Budget
	£'000	£'000	£'000	£'000	£'000	£'000
AECC Programme Board	8,176	1,430	9,606	1,760	2,000	(7,606)
Asset Management Programme Board	55,624	7,808	63,432	6,914	55,528	(7,904)
Asset Management Programme Board Rolling Programmes	31,296	2,070	33,366	3,843	23,245	(10,121)
City Centre Programme Board	38,818	(25)	38,793	8,897	33,489	(5,304)
Energy Programme Board	46,697	15,888	62,585	7,202	51,910	(10,675)
Housing and Communities Programme Board	1,830	103	1,933	(14)	509	(1,424)
Housing and Communities Programme Board Rolling Programmes	900	13	913	146	750	(163)
Transportation Programme Board	17,676	5,741	23,417	668	8,860	(14,557)
Transportation Programme Board Rolling Programmes	4,288	334	4,622	0	3,000	(1,622)
Strategic Asset & Capital Plan Board	6,834	542	7,376	548	4,300	(3,076)
Strategic Asset & Capital Plan Board Rolling Programmes	2,253	203	2,456	775	2,456	0
Developer Obligation Projects & Asset Disposals	0	0	0	78	54	54
Total Expenditure	214,392	34,107	248,499	30,818	186,101	(62,398)
Capital Funding:						
Income for Specific Projects	(67,044)	(18,210)	(85,254)	(3,637)	(32,777)	52,477
Developer Contributions	0	0	0	(37)	(54)	(54)
Capital Grant	(18,512)	0	(18,512)	(4,628)	(18,512)	0
Other Income e.g. Borrowing	(128,836)	(15,897)	(144,733)	(22,516)	(134,758)	9,975
Total Income	(214,392)	(34,107)	(248,499)	(30,818)	(186,101)	62,398

The new working practice guidelines introduced to allow safe working during the pandemic continue to have an impact across the Construction Industry. Council officers have also been made aware of concerns from across the Construction Industry regarding shortages of products and raw materials across the UK which may also impact on future costs. Ordering lead times are extending across the sector with the risk of increased delay impacts to projects. There is evidence that supply chains are struggling to keep up with the surge in demand for construction related projects as the country continues to move out of lockdown.

These emerging and rapidly changing factors present challenges in producing robust financial forecasts for projects, particularly those which are in development and design stages. As such the forecasts outturns quoted above represent a point in time and there is strong probability, they will be subject to change as the financial year progresses and additional information becomes available.

Expenditure for Quarter 1 2021/22 includes land assembly costs for the acquisition of 91 – 93 Union Street (Aberdeen Market) for the next stage of the City Centre Masterplan, and land on Shoe Lane for the Queen Street Redevelopment. As reported to Capital Programme Committee, progress also continues on the Replacement Milltimber Primary School, the refurbishment of Union Terrace Gardens, the Early Learning and Childcare (ELC) Programme, and construction of the Energy from Waste (EfW) facility in East Tullos.

Tenders which are currently expected to be awarded during Quarter 2 2021/22 include the main contractor for Torry Primary School and Community Hub, Countesswells Primary, and the Torry Heat Network.

Housing Capital Programme

Housing Capital programme experienced issues with the response to the COVID-19 pandemic in 2020/21. Sites for the New Homes Programme were closed for 3 months during the first lockdown and there were constraints around undertaking work in tenant's houses.

The assumption at quarter 1 is that budget will be achieved in 2021/22 and this will be closely monitored. The rolling programme experienced significant delays due to COVID-19 in 2020/21 with Building Services responding only to emergency works and voids with only a brief respite to this arrangement. Work on windows, kitchens and bathrooms stopped in 2020/21 and the programme was rolled forward into 2021/22, this has now recommenced with spend occurring on rewiring, heating system replacement, kitchens and bathrooms in quarter 1.

New build programme has recommenced with spend on Summerhill, Wellheads and Auchmill in Quarter 1.

Housing Capital Programmes	Approved Budget	Expenditure to date	Forecast Expenditure
As at 30 June 2021	£'000	£'000	£'000
Compliant with the tolerable standard	2,400	382	2,400
Free from Serious Disrepair	11,029	332	11,029
Energy Efficient	10,674	2,326	10,674
Modern Facilities & Services	2,339	314	2,339
Healthy, Safe and Secure	7,866	228	7,866
<i>Non Scottish Housing Quality Standards</i>			
Community Plan and Local Outcome Improvement Plan	5,995	286	5,995
Service Expenditure	4,011	104	4,011
2000 New Homes Programme	109,215	10,469	109,215
	153,529	14,441	153,529
less 11% slippage	(5,645)		(5,645)
Net Programme	147,884	14,441	147,884

Capital Funding			
Borrowing	(114,928)	(8,804)	(114,928)
Other Income - Grants Affordable Homes etc	(7,116)	(54)	(7,116)
Capital Funded from Current Revenue	(25,840)	(5,583)	(25,840)
Total	(147,884)	(14,441)	(147,884)

Common Good

As at 30 June 2021	Full Year Budget 2021/22 £'000	Forecast Expenditure 2021/22 £'000	Variance from Budget £'000
Recurring Expenditure	3,070	2,993	(77)
Recurring Income	(4,015)	(4,015)	0
Budget after Recurring Items	(945)	(1,022)	(77)
Non-Recurring Expenditure	445	458	13
Non-Recurring Income	0	0	0
Net (Income)/Expenditure	(500)	(565)	(65)
Cash balances as at 1 April 2021	(34,421)	(34,421)	
Net (Surplus)/Deficit for year to date*	(500)	(565)	
Net Capital Receipt			
Cash Balances as at 31 March 2022	(34,921)	(34,986)	

* The budgeted Surplus on the Common Good is intended to increase cash balances to protect the underlying value of investment returns.

Notes

The Common Good is forecast to be ahead of budget, which is due to a number of minor variances:

- To date there has been one event cancellation - the Highland Games - because of the Covid pandemic, offset by additional costs now forecast in relation to the Christmas Lights budget. The impact of further event changes/cancellations will be updated as the financial year progresses.
- Additional costs include the expenditure approved by the City Growth and Resources 11 May 2021:
 - o Relocation of the Denis Law Statue - £12.5k
- 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.
 - The investment of cash balances in a multi-asset income fund, approved by Council on 10 March 2021, is progressing with the fund manager having now been selected (Fidelity). Investments will be made during Quarter 2, and returns will then accrue, forecasts will be reviewed once the investments are in place.