



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

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## MANAGEMENT COMMENTARY

This is the third 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 had to respond with the impact of COVID -19 still being experienced in areas such as income and Education. 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 31 December 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 has materialised into an uncertain year, with major variances in our income and expenditure levels, the Council has sums set aside to address Covid-19 implications and has been drawing on these during the year.

Quarter 3 saw Storm Arwen, the severity of the storm and the direction of the wind saw widespread damage to the Council's tree population and had a significant impact on Aberdeen's open spaces. All types of trees have been affected. A large number have been blown down, many uprooted, branches and limbs snapped off, and several trees were left in precarious and dangerous positions. Trees, in schools, parks, play areas, open spaces, streets, and woodlands have been equally badly affected. There were over 350 incidents. Each incident reflects an inspection or enquiry. One incident can include hundreds of trees i.e. Carnie Woods. Fifty-five of these incidents are now complete. It is estimated that based on current resources and capacity within the team, that it will take a minimum of 12 months to deal with the impact of Storm Arwen on Aberdeen's trees and open spaces at an estimated cost of £500,000, this will not include the cost of replanting the trees. The routine work programme by the arboriculture teams has stopped with the exception of the most dangerous trees.

The storm caused further impact for our properties, and the full extent of repairs has not yet been quantified, it is likely that funding will be required from contingencies to address the storm damage.

COVID-19 restrictions were again reintroduced at the end of December impacting mainly on large and hospitality venues, confirmation of support to be provided to businesses has now been confirmed for the Hospitality & Leisure Fund.

The financial settlement for 2022/23 brings information that brings certainty to the full extent of grant to be funded in 2021/22, with Scottish government redeterminations (in year funding announcements) being finalised. This has given certainty to the Council and has confirmed a level of funding that was higher than expected for the current year.

For this reason, the full year forecast for the General Fund at the end of quarter 3 is for a deficit of £7.351m, this being matched by £7.351m 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 deficit.

The forecasts for the year are built on information that was known at 31 December 2021. It has been anticipated that the council's income will drop further than those estimates used in

Quarter 1 and 2 as further restrictions and the impact of COVID have not led to the improvements hoped for when restrictions were relaxed earlier in the year in such areas as Car Parking.

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, lower crematorium income, and a lower level of music services income due the reduction in the first quarter when charges could be made.
  - 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 a Scotland wide issue.
  - Higher than budgeted spend on Fleet supplies and services due to the delay in implementing Telematics and Jaama and increased costs.
  - Within Education there is a further increased spend on long term absences, under recovery of income from school lets due to COVID restrictions, increased costs of the 3R's unitary charge and contributions from other local authorities for special education.
  - Continuing to monitor the teacher recruitment indications show this has been a success for the new academic year and there are few vacancies. The assumed vacancy factor (under Corporate Budgets) is not being achieved.
  - A virement of £230k has been completed between Waste Services (from additional income achieved in 21/22) and the Scientific Lab during quarter 3 to fund the cost of their move to James Hutton Institute.
  
2. The main areas of pressure within Customer are:
  - There is a under recovery of rental income from Homeless Flats which is partially mitigated by reduction in admin, property, supplies and services costs.
  - Customer is currently in a small overspend position however there are underspends within the services 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.
  - There is little movement in the Income from catering services provided by museums and galleries and the beach ballroom at Quarter 3 the figures reflect reduced trading resulting from the COVID-19 restrictions.
  - Under recovery of Planning Application Fees due to the impact of COVID-19, continue to see a reduction in income and within the Transportation team from internal recharges.

- Unable to allocate out to the services the procurement budget savings as the savings have not been fully achieved due to the market position for the majority of goods and services.
4. The main area of pressure within Resources is:
- 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 received a report on 2nd November 2021 for Quarter 2, this detailed that the IJB was still incurring additional costs due to the implications of COVID-19 but the assumption is that this would be fully covered by the Scottish Government.

6. The Joint Boards budget and forecast outturn is based on the amount requisitioned by Grampian Valuation Joint Board and is slightly under budget because of a refund received from previous year.
7. 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.

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 Miscellaneous Services and is under regular review. The council reinstated income recovery processes in 2021 following deferral of action due to the pandemic

8. 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. In Quarter 3 this is showing an under spend of £9.1m reflecting a clearer understanding of the full extent of funding which will be available to support the General Fund, which has been validated by the publication of the Local Government Settlement in

December 2021. Specific Covid-19 funding that remains unspent at the end of the financial year will be carried forward to 2022/23.

9. Council Expenses includes the budgets for all councillors' costs, including salaries and expenses. These are forecast to be on 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 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 has changed since quarter 1 as the government has announced funding redeterminations. These include services such as free school meals (P4 and P5 and school holidays), music tuition, core curriculum and extra teachers to support policies to be delivered in the first 100-day plan of the new Scottish Government and additional funding to be passed onto the IJB for living wage, care at home and interim care planning. The additional funding for these areas has been incorporated into the budgets for the service areas that sit within Operations and the IJB where relevant.  
  
Further funding for Covid-19 support has been announced through the redetermination in December 2021 this includes COVID consequentials, Education recovery, low-income pandemic payments, and financial insecurity funding.
12. Council Tax income is being collected at an improved rate compared 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 this amount in full. This will result in a forecast deficit of £7.351m 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 (CFCR).

### **Earmarked Reserves**

As at 1 April 2021 the Council held 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 31 December 2021 £0.528m 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 (£2.199m)

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 as 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 is how the Council has incentivised workforce reductions. This is an expensive scheme with the funding for it having to be found and accounted for up front from revenue resources. For the last few years, it has been permitted, by Scottish Government Ministers, for Local Government to use Capital Receipts to fund this revenue cost. This scheme has been extended until 31 March 2023. The Council has seen limited capital receipts since the March 2020, with a retained balance of £1.2m on the balance sheet at 31 March 2021 and the forecast for only £0.7m being received this year. To maintain robust financial controls, and with such tight financial constraints on the funding of the scheme, consideration should be given to the parameters of the current scheme.

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 Council 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 £7.351m 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 3

As at 31 December 2021	Budget 2021/2022	Outturn 2021/2022 Quarter 3	Variance from Budget		Notes
	£'000	£'000	£'000	%	
Operations	271,124	275,935	4,811	1.8	1
Customer	39,589	39,621	32	0.1	2
Commissioning	22,704	24,310	1,607	7.1	3
Resources	3,028	6,626	3,597	118.8	4
Integrated Joint Board	102,251	102,251	0	0.0	5
<b>Total Functions Budget</b>	<b>438,697</b>	<b>448,744</b>	<b>10,047</b>	<b>2.3</b>	
Joint Boards	1,845	1,729	(116)	(6.3)	6
Miscellaneous Services	57,521	59,116	1,595	2.8	7
Contingencies	10,501	1,306	(9,195)	(87.6)	8
Council Expenses	1,425	1,446	21	1.5	9
<b>Total Corporate Budgets</b>	<b>71,292</b>	<b>63,597</b>	<b>(7,696)</b>	<b>(10.8)</b>	
Non Domestic Rates	(202,923)	(202,923)	0	0.0	10
General Revenue Grant	(171,667)	(171,667)	0	0.0	11
<b>Government Support</b>	<b>(374,590)</b>	<b>(374,590)</b>	<b>0</b>	<b>0.0</b>	
Council Tax	(128,899)	(123,899)	5,000	(3.9)	12
<b>Local Taxation</b>	<b>(128,899)</b>	<b>(123,899)</b>	<b>5,000</b>	<b>(3.9)</b>	
Contribution from Reserves	(6,500)	(6,500)	0	0.0	13
<b>Contribution from Reserves</b>	<b>(6,500)</b>	<b>(6,500)</b>	<b>0</b>	<b>0.0</b>	
<b>Deficit/(Surplus)</b>	<b>(0)</b>	<b>7,351</b>	<b>7,351</b>	<b>0.0</b>	

## Housing Revenue Account Summary 2021/2022 - Quarter 3

<b>Deficit/(Surplus)</b>	<b>(500)</b>	<b>(500)</b>	<b>0</b>	<b>(0)</b>	<b>14</b>
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Note – the General Fund forecast deficit of £7.351m will be covered by a further contribution from earmarked reserves as described in Note 13 above

## General Fund Capital Programme

The Capital programme continued to be updated during Quarter 3 due to further confirmation of funding awards for 2021/22, and now includes:

- £0.242 million for CO2 monitors in Schools;
- £0.305 million in additional Flooding Prevention monies;
- £2.908 million for the Early Learning and Childcare programme, as reported to Capital Programme Committee in December 2021

Officers have also been advised that the £20m Levelling Up Fund bid to the UK Treasury in support of the City Centre and Beach Masterplan programme has been successful and are in discussions on how these funds will be drawn down. The Programme will require to be updated again once these details are confirmed.

As at Period 9 2021/22	2021/22			
	Revised Budget	Expenditure to Date	Forecast Outturn	Outturn Variance from Revised Budget
	£'000	£'000	£'000	£'000
AECC Programme Board	9,606	3,115	3,400	(6,206)
Asset Management Programme Board	66,898	24,520	41,515	(25,383)
Asset Management Programme Board Rolling Programmes	33,671	19,299	24,012	(9,659)
City Centre Programme Board	38,793	22,691	33,528	(5,265)
Energy Programme Board	62,585	13,299	28,534	(34,051)
Housing and Communities Programme Board	1,933	26	509	(1,424)
Housing and Communities Programme Board Rolling Programme	913	477	750	(163)
Transportation Programme Board	24,121	2,326	8,648	(15,473)
Transportation Programme Board Rolling Programmes	4,622	1,044	3,000	(1,622)
Strategic Asset & Capital Plan Board	8,115	2,119	5,039	(3,076)
Strategic Asset & Capital Plan Board Rolling Programmes	2,456	2,440	2,456	0
Developer Obligation Projects & Asset Disposals	0	378	281	281
<b>Total Expenditure</b>	<b>253,713</b>	<b>91,733</b>	<b>151,672</b>	<b>(102,041)</b>
<b>Capital Funding:</b>				
Income for Specific Projects	(89,605)	(13,546)	(17,224)	72,381
Developer Contributions	0	(241)	(379)	(379)
Capital Grant	(19,375)	(14,747)	(19,375)	0
Other Income e.g. Borrowing	(144,733)	(63,199)	(114,694)	30,039
<b>Total Income</b>	<b>(253,713)</b>	<b>(91,733)</b>	<b>(151,672)</b>	<b>102,041</b>

The new working practice guidelines introduced to allow safe working during the pandemic continue to have an impact across the Construction Industry. Officers are aware that the Construction Industry is now experiencing shortage of products, raw materials, staffing and logistical support which is impacting on current and future costs across the UK. Ordering lead times are extending across the sector with the risk of increased delay impacts to projects. There is also evidence of a contraction in the Construction Industry particularly in terms of small to medium sized suppliers.

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 continue to represent a point in time and there is a strong

probability they will be subject to change as the financial year progresses and additional information becomes available.

Expenditure for Quarter 3 2021/22 has again seen a marked increase across the rolling programmes (Property Condition & Suitability, Roads Infrastructure and Street Lighting, and Fleet Replacement) as officers and contractors managed to sustain the progress achieved during Quarter 2.

As reported to Capital Programme Committee, progress also continues on the New Schools programme (Replacement Milltimber Primary School, new Countesswells Primary and Replacement Riverbank Primary) 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. Advance works have also been carried out for the demolition of the existing structure at 91-93 Union Street in preparation for the redevelopment of the site.

Contracts have been signed for 10 additional hydrogen double decker buses since the Quarter 2 update, with delivery scheduled for the Spring of 2022. The main contractor for the Torry Heat Network has also been appointed.

Tenders which are currently expected to be awarded during Quarter 4 2021/22 include the main contractor for Torry Primary School and Community Hub. Officers also expect to conclude the acquisition of additional units on Union Street in support of the New Market project.

## Housing Capital Programme

As detailed in the Non-Housing Capital programme above the construction industry is facing challenging times. This has also been felt in the Housing Programme.

Spend is low in the rolling programme in areas such as kitchen, bathroom, lift and window replacements. The assumption at quarter 3 is that budgeted expenditure will not be achieved in 2021/22, this is because of low spend on windows, roofs, the projects in 206 Union Street & Clinterty.

Payments for Cloverhill commenced in January therefore spend on the new build programme will increase in the remaining quarter of the financial year.

<b>Housing Capital Programmes As at 31 December 2021</b>	<b>Approved Budget</b>	<b>Expenditure to date</b>	<b>Forecast Expenditure</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Compliant with the tolerable standard	2,400	1,780	2,400
Free from Serious Disrepair	11,029	1,489	6,029
Energy Efficient	10,674	8,057	12,674
Modern Facilities & Services	2,339	998	2,339
Healthy, Safe and Secure	7,866	3,800	7,866
<i>Non Scottish Housing Quality Standards</i>			
Community Plan and Local Outcome Improvement Plan	5,995	1,502	2,995
Service Expenditure	4,011	374	4,011
2000 New Homes Programme	109,215	38,921	100,000
	<b>153,529</b>	<b>56,919</b>	<b>138,314</b>
less 11% slippage	(5,645)		
<b>Net Programme</b>	<b>147,884</b>	<b>56,919</b>	<b>138,314</b>

<b>Capital Funding</b>			
Borrowing	(114,928)	(34,766)	(105,358)
Other Income - Grants Affordable Homes etc	(7,116)	(972)	(7,116)
Capital Funded from Current Revenue	(25,840)	(21,181)	(25,840)
<b>Total</b>	<b>(147,884)</b>	<b>(56,919)</b>	<b>(138,314)</b>

## Common Good

As at 31 December 2021	Full Year Budget 2021/22 £'000	Forecast Expenditure 2021/22 £'000	Variance from Budget £'000
Recurring Expenditure	3,070	3,232	162
Recurring Income	(4,015)	(4,015)	0
<b>Budget after Recurring Items</b>	<b>(945)</b>	<b>(783)</b>	162
Non-Recurring Expenditure	445	580	139
Non-Recurring Income	0	0	0
<b>Net (Income)/Expenditure</b>	<b>(500)</b>	<b>(203)</b>	297
<b>Cash balances as at 1 April 2021</b>	<b>(34,421)</b>	<b>(34,421)</b>	
Net (Surplus)/Deficit for year to date*	(500)	(203)	
Net Capital Receipt	0	(1,000)	
<b>Invested and Cash Balances forecast as at 31 March 2022</b>	<b>(34,921)</b>	<b>(35,624)</b>	

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

### Notes

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

- To date there has been event cancellations - the Highland Games, BP Summer Screen, Fireworks, Twinning - because of the Covid restrictions, offset by additional costs now forecast in relation to the Christmas Lights budget and approvals detailed below.
- Additional costs include the expenditure approved by the City Growth and Resources:
  - o Relocation of the Denis Law Statue - £15k
  - o City centre clean £100k
  - o Support Denis Law walking trail £20k
- 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.
- Capital receipts relate to payment due for Pinewood land.
- The investment of cash balances in a multi-asset income fund, approved by Council on 10 March 2021 has now been implemented. The fund manager, Fidelity, was selected as reported in the quarter 1 report and investments have been made during Quarter 2 of £30m. The value of the investment may fall as well as increase, this will be reported in Quarter 4, however we will still maintain a level of income.