

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	City Growth and Resources
<b>DATE</b>	3 August 2022
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Council Financial Performance – Quarter 1, 2022/23
<b>REPORT NUMBER</b>	RES/22/152
<b>DIRECTOR</b>	Steven Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Lesley Fullerton
<b>TERMS OF REFERENCE</b>	1.1

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### 1. PURPOSE OF REPORT

- 1.1 To provide the financial position of the Council as at Quarter 1 (30 June 2022) and the full year forecast position for the financial year 2022/23, including:
- General Fund and Housing Revenue Account (HRA) and capital accounts; and associated Balance Sheet; and
  - Common Good revenue account and Balance Sheet
- 1.2 Report the outcome of the reprofiling of the Capital Programmes, as instructed by the Committee at its meeting on 21 June 2022.

### 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 1 as detailed in Appendix 1;
- 2.2 Note the Common Good financial performance to the end of Quarter 1 as detailed in Appendix 3, specifically the £2m reduction in cash balances due to investment volatility;
- 2.3 Note that the General Fund full year forecast position, as detailed in Appendix 2, is expected to show a balanced position overall for 2022/23, based on the assumption that the Scottish Government will fund any increase to the current pay offer made by Cosla and through the other mitigations contained within the report, including the use of one-off funding streams;
- 2.4 Note the initial information provided in the report about the fire at Altens East Waste and Recycling Centre and instruct the Chief Officer – Operations and Protective Services to report back to the next meeting of the Committee with details of the contractual, financial, and operational implications, including assurance about how the council has mitigated financial exposure;

- 2.5 Note that the HRA full year forecast position, as detailed in Appendix 2, is on target to achieve the approved budget, making a contribution to HRA reserves for 2022/23;
- 2.6 Note that the Council relies on the Integration Joint Board (IJB) achieving a balanced budget, and that it retains reserves in the event of unplanned additional costs arising during the year;
- 2.7 Note that the forecast for General Fund capital expenditure is that there will be lower spend than had been budgeted in 2022/23, and for Housing, capital expenditure will be in line with 11% slippage on the programme, as described in Appendix 2;
- 2.8 Note that officers have completed the work required to reprofile the capital programmes, following instruction by the Committee on 21 June 2022 (Appendix 5), and that this has led to the following recommendations:-
- 2.8.1 Note that almost all capital projects can be paused, delayed or ultimately cancelled though there would be implications related to such decisions;
- 2.8.2 Note that for reprofiling purposes there are projects/programmes within the approved Capital Programmes which have been excluded;
- 2.8.3 Note the legal status of the contracts involved in delivery of the projects as this to an extent dictates the level of flexibility that the Council has in terms of reprofiling, pausing or cancelling projects;
- 2.8.4 Notes the General Fund Capital funded projects/programmes recommended for reprofiling are shown in Appendix 5 – Table 1, which shows the current budget profile;
- 2.8.5 Instruct the Chief Officer – Finance to remove the Early Learning & Childcare - St Josephs and Garthdee Link Road projects from the General Fund Capital Programme;
- 2.8.6 Approves the reprofiled General Fund Capital funded projects/programmes as shown in Appendix 5 – Table 2. Noting the use of the existing contingency in the programme;
- 2.8.7 In light of the best value consideration referred to in the report, instruct the Chief Officer – Capital to retender the 3-stream Tillydrone Primary School project, and report back to the next appropriate City Growth and Resources Committee;
- 2.8.8 In light of the best value consideration referred to in the report, instruct Chief Officer – Capital to pause the four Housing Capital Council-led new build projects as recommended in Appendix 5, to evaluate the actions to be taken, assess best value and where appropriate retender work packages. The outcome of this exercise will be reported to the next appropriate meeting of City Growth and Resource Committee;

- 2.8.9 Approve the inclusion of additional budgets to the Housing Capital Programme for improvements to void properties, in support of displaced Ukrainians, subject to funding being confirmed by the Scottish Government.

### **3. CURRENT SITUATION**

- 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 2022/23 on 7 March 2022 to ensure a balanced budget for year ahead, in accordance with its statutory duty.
- 3.2 This report focuses on both the financial performance for the year to 30 June 2022 and the forecast financial position for the full year for the Council's General Fund, Housing Revenue Account and Common Good.
- 3.3 Across the General Fund the recovery from the Covid-19 pandemic continues to impact the financial position, and the need to address ongoing cost pressures remains a feature of the Quarter 1 position and forecasts.
- 3.4 Further financial risks from the war in the Ukraine resulting in supply chain volatility, and rising inflation, to levels not seen for four decades, are now also affecting the Council, and where these are known they have been taken into account in the financial forecasts.
- 3.5 The appendices show that the IJB is forecasting a balanced position as at Quarter 1. The Board continue to rely on some Covid-19 related costs being met by Scottish Government however retain reserves to use to support operations as the impact of the pandemic changes. The Council continues to rely on the financial position of the IJB to mitigate any exposure the Council has to additional funding.
- 3.6 The Council retains a contingency budget to address unexpected and unplanned expenditure, as well as costs that 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 Risk Board routinely reviews the risk registers, and the Chief Officer - Finance tracks the contingent liabilities, and these are included in Appendix 1.
- 3.7 As referenced above, a balanced position is currently forecast based on this latest data, and this will be achieved by the use of earmarked reserves held on the Council Balance Sheet and utilising the financial flexibility offered by Scottish Government to defer payment of the loans fund instalment for 2022/23.
- 3.8 While the earmarked reserves provide part of the solution at this time, these are finite and if the situation changes then further consideration would have to be made.

- 3.9 Changes that could benefit the Council in the short to medium term continue to be discussed at a national level. The Council has budgeted to make use of those that have been put in place (i.e. the loans fund repayment deferral) but the impact on the Council finances in relation to the Service Concession flexibilities (i.e. changes proposed in accounting treatment for the Public & private Partnership contracts) has yet to be calculated, with guidance only recently being issued. Consultation on the terms of reference for a review of Capital Accounting is currently taking place. I have not assumed the use of this fiscal flexibility in forecasting the outturn for 2022/23.
- 3.10 Turning to the General Fund Capital Programme, all capital works were affected by the lockdown restrictions. Budgets were reprofiled when the budget was set on 7 March 2022 and substantial progress is being made on key sites. Spending is expected to be less than had been profiled but consideration will have to be given to the rising costs in some areas of the programme, as detailed in Appendix 2. A report on the impact of the supply chain volatility and inflation on the Capital Programmes and potential reprofiling options is included as Appendix 5.
- 3.11 The Capital Programme spend being lower than budget, primarily due to the timing of expenditure, will reduce the requirement for borrowing during this financial year and will defer the revenue cost until future years. Project progress is monitored through the Capital Programme Committee.
- 3.12 The Housing Revenue Account is forecasting to be on budget and the associated Housing Capital Programme is currently expected to be on budget, anticipating an 11% slippage included in the programme for the year.
- 3.13 The Common Good is expected to be on budget. The investment of cash balances in a Multi-asset Income Fund has been put in place with Fidelity as the fund manager since last year. This continues to deliver the level of income the Common Good was expecting, however the value of the underlying investment has continued to fall, and at the end of Quarter 1, this amounted to a further £2m since March 2022. The investment remains a long-term financial instrument and performance should be measured over a period of 3 to 5 years rather than a single year.
- 3.14 Summary of Financial Statement Appendices
1. The financial statements reflect the income and expenditure of the General Fund and Housing accounts for the period to 30 June 2022 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 30 June 2022 is positive as the profile of income from Scottish Government supports expenditure levels.

The Balance Sheet figures at 30 June 2022 show an overall increase in net worth of the Council to £1.5 billion. The figures shown include statutory

adjustments where these have been made, and where this is not possible the figure as at 31 March 2022 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 be on budget, making use of the one-off funding streams approved in the budget, such as earmarked reserves and using fiscal flexibility put in place by Scottish Government. The Council 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 expenditure is forecast to be lower 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 30 June 2022 and provides an overview of performance.
4. This provides information on the Group Entities. Due to the timing of this report not all performance reports are available in relation to financial year 2022/23 and in the absence of the latest data 2021/22 information has been provided where appropriate.

#### 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>2022/23 Budget £'000</b>	<b>2022/23 Forecast (Surplus) / Deficit exc. Group £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	0	0	0
HRA	(500)	(500)	0
Common Good	(319)	(319)	0

- 4.2 The capital position can be summarised as follows:

<b>Capital</b>	<b>2022/23 Budget £'000</b>	<b>2022/23 Forecast Expenditure £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	262,539	219,500	(43,039)
HRA	182,473	182,473	0

- 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 2022/23 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 2022 £'000</b>	<b>Balance at 30 June 2022 £'000</b>	<b>Movement £'000</b>
General Fund	(72,152)	(161,807)	(89,655)
HRA	(15,215)	(15,215)	0
Statutory & Other	(20,859)	(20,966)	(107)
<b>Total</b>	<b>(108,226)</b>	<b>(197,988)</b>	<b>(89,762)</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. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

## 7. RISK

7.1 The risks detailed within Appendix 2 are reflected across the Council's risk registers and are managed in accordance with the Council's risk management arrangements. The risks are mitigated and managed by the establishment of control actions in addition to existing control measures and activities to achieve a risk score that is consistent with the Council's risk appetite.

7.2 The assessment of risk contained within the table below is considered to be consistent with the Council's Risk Appetite Statement.

<b>Category</b>	<b>Risks</b>	<b>Primary Controls/Control Actions to achieve Target Risk Level</b>	<b>*Target Risk Level (L, M or H)</b>  <small>*taking into account controls/control actions</small>	<b>*Does Target Risk Level Match Appetite Set?</b>
<b>Strategic Risk</b>	Failure to manage Council finance and resources could lead to	Robust financial reporting and monitoring activities, combined with a rigorous financial planning process as	M	Yes

	failure to achieve strategic objectives.	part of the commissioning cycle prepare the Council for the years ahead. Financial resilience to address financial pressures arising in-year is maintained and monitored.		
<b>Compliance</b>	There is the risk that the accounts do not comply with legal and accounting legislation.	Annual external audits are undertaken to review the financial transactions and controls. Ongoing internal audits also review specific financial and service data.	L	Yes
<b>Operational</b>	There is the risk that there may be an IT system failure.	Daily backups taken and held offsite for security purposes. Constant review and update of security systems for IT.	M	Yes
<b>Financial</b>	The main financial risk the Council is managing is the supply chain and inflation impact on costs.	Reviewing all areas of expenditure with a view to only incurring essential expenditure. Forecasts have taken account of known implications Regular reporting and action taken where appropriate.	M	Yes
	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.	Quantification and review of indicative projects costs by suitable qualified staff or external body, where appropriate.  Review of capital programme and options for reprofiling is included at Appendix 5.	M	Yes

	The risk that workforce management options are not affordable in the future, such as the cost of the VS/ER scheme described in Appendix 2 (page 5).	Current permission from Scottish Government to use capital receipts for voluntary severance / early retirement revenue costs ends on 31 March 2023. Unless extended, alternative revenue funding would have to be found or changes made to the scheme.	H	Yes
<b>Reputational</b>	There is a risk that through the reduction of expenditure the Council may be criticised that spending isn't in line with public expectation of service delivery.	The Council has continued to address priority spending 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.	M	Yes
<b>Environment / Climate</b>	None identified			

## 8. OUTCOMES

<u><a href="#">COUNCIL DELIVERY PLAN</a></u>	
<b>Impact of Report</b>	
<b>Aberdeen City Council Policy Statement</b>	The proposals in this report have no impact on the Council Delivery Plan
<u><a href="#">Aberdeen City Local Outcome Improvement Plan</a></u>	



Prosperous Economy Stretch Outcomes	The proposals in the report have no impact on the Local Outcome Improvement Plan
Prosperous People Stretch Outcomes	The proposals in the report have no impact on the Local Outcome Improvement Plan
Prosperous Place Stretch Outcomes	The proposals in the report have no impact on the Local Outcome Improvement Plan
<b>Regional and City Strategies</b>	The proposals in this report have no impact on Regional and City Strategies

## 9. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Integrated Impact Assessment</b>	Full impact assessment not required
<b>Data Protection Impact Assessment</b>	not required
<b>Other</b>	not required

## 10. BACKGROUND PAPERS

None

## 11. APPENDICES

Appendix 1 – Financial Statement for the period ending 30 June 2022

Appendix 2 – Forecast Financial Position for the year 2022/23

Appendix 3 – Common Good Financial Statement for the period ending 30 June 2022

Appendix 4 – Group Entities Forecast Financial Position for the year 2022/23

Appendix 5 – Reprofitting of Capital Programmes

## 12. REPORT AUTHOR CONTACT DETAILS

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