

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy and Resources
DATE	1 December 2017
REPORT TITLE	Council Financial Performance – Quarter 2, 2017/18
REPORT NUMBER	CG/17/130
LEAD OFFICER	Steven Whyte, Head of Finance
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1. PURPOSE OF REPORT:-

1.1 To provide the financial position of the Council, as at Quarter 2 (July – September 2017) and the full year forecast position for the financial year 2017/18, including:

- General Fund and Housing Revenue Account (HRA) revenue and capital accounts and the associated Balance Sheet; and
- Common Good Revenue Account and Balance Sheet.

2. RECOMMENDATION(S)

2.1 It is recommended that Committee note the following:-

- a) General Fund and HRA financial performance as detailed in Appendix 1;
- b) Common Good financial performance as detailed in Appendix 3;
- c) General Fund forecast revenue position as detailed in Appendix 2;
- d) HRA forecast revenue position as detailed in Appendix 2;
- e) General Fund forecast capital position as detailed in Appendix 2;
- f) HRA forecast capital position as detailed in Appendix 2;
- g) Common Good forecast revenue position as detailed in Appendix 2; and
- h) Group Entities forecast revenue position as detailed in Appendix 4.

2.2 It is recommended that Committee approve the 2018/19 budget approach and timeline as detailed in Appendix 5.

2.3 It is recommended that Committee agree the following, further details of which are provided in Appendix 2:

2.3.1 General Fund Capital

- i) Withdrawal of project NHCP839 - Flood Prevention Measures: Inchgarth Road from the programme as a result of approval of the re-scoped works by Communities Housing and Infrastructure committee on 29 August 2017; and

- j) Bring project NHCP805 – Technology Investment Requirements & Digital Strategy to an early close due to it being superseded by the adoption of the new Digital approach by Strategic Transformation committee on 4 October 2017 and associated Transformation Fund.

2.3.2 Common Good

- k) Allocation of £4,875 funding to Aberdeen Street Pastors;
- l) Allocation of £7,000 funding to Friends of Victoria & Westburn Park; and
- m) Allocation of £75,000 funding for external cleaning costs of the Music Hall.

3. BACKGROUND/MAIN ISSUES

- 3.1 This is the second quarterly financial report for 2017/18, representing the next stage of a stepped change in the way the Council reports its financial position.
- 3.2 This report focuses on both the financial performance for the quarter July to September 2017 and the projected financial position for the full year for the Council's General Fund, Housing Revenue Account and Common Good.
- 3.3 Quarterly reporting will evolve throughout the year to incorporate further changes such that the ultimate aim of a faster year end closedown and the production of the unaudited annual accounts by the end of April 2018 can be achieved. This means the Council would have produced its annual accounts two months earlier than the statutory deadline.
- 3.4 The performance for the second quarter is a positive one with expenditure and income largely in line with budget for this stage of the year. Notwithstanding this there are cost and demand pressure areas which services are actively managing. Further information on this is contained within Appendices 1 and 2 to this report.
- 3.5 The financial statements contained within Appendix 1 reflect the income and expenditure for the quarter and start to reflect some of the statutory accounting adjustments required to ensure compliance with International Financial Reporting Standards (IFRS). These are detailed within the appendix and the application of such adjustments will evolve throughout the year with further adjustments being reflected in future quarterly reports.
- 3.6 The Balance Sheet figures at 30 September 2017 reflect the actual position at the balance sheet date where appropriate, the resultant figure including statutory adjustments where these have been made or where they haven't been made the figure at 31 March 2017 has been used. Reserves have been updated to reflect the impact of the performance to date such that usable reserves have increased during the period. This in part reflects that there is currently a net income position due to the timing of the receipt of income from the Scottish Government.
- 3.7 The forecast outturn position for the year reflected in Appendix 2 shows that the Housing Revenue Account is line with budget whilst General Fund revenue has a relatively small overspend of £1.1m (or 0.3% of net cost of services) resulting from a number of cost pressures which will be mitigated during the year through effective management of costs. In addition to this and as per normal practice,

to ensure the financial stability of the Council, the Head of Finance will work with Services, using his influence as appropriate and where necessary, to ensure the financial position of the Council is in line with the budget as agreed by Council.

- 3.8 Financial re-profiling of the General Fund capital programme has continued in Quarter 2 to update project profiles. This has had no impact on overall project costs.
- 3.9 The programme now includes the first phase of the City Region Deal project Transportation Links to Bay of Nigg, which will be fully funded by the City Region Deal.
- 3.10 As indicated in the report CHI/17/193 – Inchgarth Road Flood study to the Communities Housing and Infrastructure committee in August, this project has been reassessed and does not require civil engineering works. The project outcomes can be delivered within other approved budgets, and this project should now be withdrawn from the capital programme.
- 3.11 Similarly, the creation of the Transformation Fund by Council in August, and subsequent approval of the new Digital approach by Strategic Transformation committee in October have superseded the original aims of the Technology Investment Requirements & Digital Strategy project. The original project can be brought to an early close.
- 3.12 The capital programme governance arrangements approved by Audit, Risk and Scrutiny committee in August have been rolled out across the Council with the majority of training for programme sponsors, programme managers and project managers now complete.
- 3.13 The Housing capital programme is currently projected to be maintained within the funded level.
- 3.14 The Common Good as detailed in Appendix 2 is reflecting a small underspend against budget of £60k. There are adequate cash reserves following underspends in previous years to fund the three applications detailed at 2.2.3. All three applications above have been reviewed by Legal Services and meet the funding criteria required
- 3.15 The Group Entities forecast in Appendix 4 indicates that there are no material areas of concern in relation to these entities for 2017/18.
- 3.16 Appendix 5 sets out the approach to the 2018/19 budget including work undertaken to date and the approach and timeline for the remainder of the process until Council sets the 2018/19 budget at its meeting on 19 February 2018.

4. FINANCIAL IMPLICATIONS

- 4.1 The financial performance of the Council's main accounts, General Fund, Housing Revenue Account and Common Good for the second quarter, July – September 2017, of the financial year 2017/18 is reflected in Appendices 1 and 3 to this report.

- 4.2 The forecast full year financial position for these same accounts, both revenue and capital is provided in Appendix 2 to this report.
- 4.3 Appendix 1 also includes a Management Commentary providing:
- Further information on the Performance in Quarter 2; and
 - Further information on the 2017/18 Projected Financial Position, including details of the items for which there are specific recommendations above.
- 4.4 Following a positive financial performance in 2016/17, the Council started the financial year 2017/18 with a strong financial platform from which to operate. It is recognised that this will be another financially challenging year and that strong fiscal management coupled with financial restraint will be required to ensure that a balanced position against budget is achieved which in turn will continue to provide a strong balance sheet for future financial years.
- 4.5 Services continue to manage increased demand within the current service delivery model and structure within which the Council operates and this requires continuous close fiscal management. Indeed services are examining all areas of spend with a view to avoiding expenditure except where absolutely necessary.
- 4.6 A small overspend of £1.1m against budget is currently forecast for the General Fund, 0.3% of the net service budget. This is in the context of a number of identified cost and/or demand pressures on services which require to be addressed during the remainder of the year and a number of mitigating underspends and efficiencies that have been built into the forecasts. A short life working group has reviewed spend across a range of council wide areas including procurement, workforce, technology and service specific areas where there has been historic or current budget pressures, taking into consideration trends and benchmarking data where possible to inform options going forward. Initial work carried out by the group identified £5.8m of areas of expenditure were identified for challenge, of which £1.5m have been agreed for reduction of budget forecasts. The current position indicates that whilst there are challenges ahead, a number of further efficiencies are available to address these, which coupled with general restraint on spend means that a balanced position can be achieved.

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 and issue of bonds.

6. MANAGEMENT OF RISK

Financial

- 6.1 Every organisation has to manage the financial risks inherent in the operation of large and complex budgets. These risks are minimised by the regular review of financial information by services and corporately by Elected Members. This report is part of that framework and has been produced to provide an overview of the current operating position and so financial risk related to this report is considered to be low.

- 6.2 The main financial risk that the Council is managing is the increased demand on services. This is being mitigated through reviewing all areas of expenditure with a view to only incurring expenditure that is absolutely essential.
- 6.3 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. This risk is mitigated through quantification and review of indicative project costs by suitably qualified staff or external body where appropriate.

Other

- 6.2 Consideration has also been given to Employee, Customer / Citizen, Environmental, Technological and Legal risks, and no risks were identified.

Reputational

- 6.7 The reputational risks to the Council are minimised by the regular review of financial information by services, CMT and Elected members throughout the Financial Year

7. IMPACT SECTION

Economy

- 7.1 Investment in the city will have a positive impact on the economy.

People

- 7.4 Robust management of the council's finances will ensure that council services can continue to be provided.

Place

- 7.5 Investment will enhance the place by creating a better and more vibrant city in which to live.

Technology

- 7.6 There are no direct implications on technology arising from the recommendations of this report

8. BACKGROUND PAPERS

None

9. APPENDICES

Appendix 1 – Financial Statement for the quarter 1 July to 30 September 2017
Appendix 2 – Projected Financial Position for the year 2017/18
Appendix 3 – Common Good Financial Statement for the quarter 1 July to 30 September 2017
Appendix 4 – Group Entities Projected Financial Position for the year 2017/18
Appendix 5 – 2018/19 Budget Approach

10. REPORT AUTHOR DETAILS

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