

ABERDEEN CITY COUNCIL

COMMITTEE	City Growth and Resources
DATE	31 October 2018
REPORT TITLE	Council Financial Performance – Quarter 2, 2018/19
REPORT NUMBER	RES/18/205
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Lesley Fullerton
TERMS OF REFERENCE	1.3

1. PURPOSE OF REPORT

1.1 To provide the financial position of the Council, as at Quarter 2 (September 2018) and the full year forecast position for the financial year 2018/19, 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 the Committee note the: -

- a) Progress made in the first half of the year to achieve budgeted savings;
- b) General Fund and HRA financial performance to the end of Quarter 2 as detailed in Appendix 1;
- c) Common Good financial performance to the end of Quarter 2 as detailed in Appendix 3;
- d) General Fund forecast revenue and capital positions as detailed in Appendix 2;
- e) HRA forecast revenue and capital positions as detailed in Appendix 2;
- f) Common Good forecast position as detailed in Appendix 2; and
- g) Group Entities forecast revenue position as detailed in Appendix 4.

2.2 To note the advice provided by the Chief Officer – Finance in paragraphs 3.13 and 3.14, that the Council must continue to be proactive in its financial planning arrangements and to prepare for and respond to the range of cost pressures and uncertainties described in the report and appendices, and to recommend:

General Fund Revenue

- a) to instruct the Corporate Management Team to the Corporate Management Team to stop and reduce net expenditure wherever possible with immediate effect.

3. BACKGROUND

- 3.1 This report focuses on both the financial performance for the year to 30 September 2018 and the forecast financial position for the full year for the Council's General Fund, Housing Revenue Account and Common Good.
- 3.2 The performance for the year to date has so far been a positive one with net expenditure largely in line with budget for this stage of the year.
- 3.3 Savings realisation and tracking at the half year point indicates significant progress being made towards achieving all the savings that were agreed, with over 75% so far captured. This can be summarised as follows:

Description	Target Reduction	Achieved Reduction at end of Quarter 2
Posts reduction	370 fte; with a value of £10.4m	330 fte; with a value of £9.9m
Assets	£0.7m	£0.5m
Commissioning and procurement	£6.8m	£3.3m
Income	£0.2m	£0.0m
Total	£18.1m	£13.7m

- 3.4 A significant proportion of the posts reduction savings have been achieved through the voluntary severance / early retirement scheme. The costs associated with the scheme continue to be a pressure against the Council Balance Sheet, legitimately using one-off funding for recurring revenue benefit. The one-off nature of Balance Sheet resources makes the continuation of posts reduction through this means unsustainable. Other means of managing and planning the workforce size and shape are therefore required and it is expected that the management of staff turnover and vacancies will be a feature of that approach.
- 3.5 Notwithstanding this positive start to the year, there were cost and demand pressure areas highlighted in Quarter 1 reporting that at the end of Quarter 2 continue to be challenging to manage in-year. These are described in more detail in Appendix 2.
- 3.6 The forecasts are built upon a range of assumptions, estimates and judgements. The budget set for this financial year was based on lifting the pay cap as described by the Cabinet Secretary for Finance and the Constitution in December 2017. Since then the offer made by the Employer side has a cost impact that is greater than had been budgeted. The additional cost amounts to £0.6m and is included in the forecasts. However, the Employee side as represented by the Trade Unions, are currently balloting on

whether to accept the employer offer for all categories of staff and it is understood that all trade unions have called for their members to reject the offer. Ballots end between mid-October and mid-November 2018.

- 3.7 An increasingly protracted period to resolve this part of the budget leaves the Council trying to manage one of the largest annual cost pressures it faces towards the end of the financial year, uncertain of what the outcome will be.
- 3.8 The full year impact of an additional 1% increase in any pay award settlement would cost the Council approximately £3.2m and with EIS expectations of a 10% increase for teachers this would represent a 7% increase on current forecasts. If on the basis of equity this was applied to all staff categories then the impact on the Council would be over £20m of additional cost.
- 3.9 The fact is that the Council is no clearer on the outcome than it was when reporting the quarter one position in early summer. Clearly, as part of national pay bargaining, council will honour the terms of the final agreement reached and will ensure are remunerated accordingly. However, the question remains in terms of how, within the remaining 5 months of the financial year, council can finance an unknown liability.
- 3.10 My professional advice would be that funding the pay award, being a recurring cost, should not be committed against contingencies. These exist to mitigate financial risks the council may face and other financial unknowns. For example, the severity and therefore cost of winter maintenance is not predictable. In addition, we face an obligation under the Integration Joint Board's Integration Scheme to fund over spending, where contributions are based on the proportionate share of the baseline payments to the Board, regardless of where the over spending has occurred.
- 3.11 Emerging issues add to the level of uncertainty and a contingent liability in the 2017/18 accounts, Scottish Child Abuse Inquiry, has a number of strands that could impact on the Council. The recommendations that the financial redress scheme for Survivors of Child Abuse in Care being put in place by the Scottish Government will be funded by those responsible. The implication being that Councils will have to fund a proportion of this scheme, while no details exist of how this will be applied it provides another reason to be taking action to prepare.
- 3.12 The result, of the combined effect of positive progress around agreed savings, the identified cost pressure areas and underlying uncertainties and risks, is that the overall operational conditions are pressuring the Council and action is required to release this.
- 3.13 My advice is that the Council must continue to be proactive in its financial planning arrangements to prepare for and respond to the range of cost pressures and uncertainties described. I have taken a prudent view that action is required now to achieve a reduction in the level of expenditure being incurred in the General Fund specifically, so that the Council is as prepared as can be to deal with the uncertainty by protecting the level of contingencies

it has available in the General Fund and avoid the use of one-off funding streams.

- 3.14 In addition to all the actions underway by the Extended Corporate Management Team to manage the financial position, I am recommending that the Committee instruct the Corporate Management Team (CMT) to stop and reduce General Fund spending wherever possible.
- 3.15 To be clear, the recommendation excludes capital investment in the capital programme and expenditure on the Housing Revenue Account, which is expected to continue in line with its business plan. Clearly, the decision to stop spending needs to take cognisance of impact on our vulnerable communities as well as policy and legislative obligations. Therefore I have asked that CMT identify the spending categories which the freeze will be applied to.
- 3.16 The forecast, contained in Appendix 2, is for reasons of presentation quantified as a specific value, a small over spend of £0.8m, and does not reflect the range of scenarios that could be achieved if the individual elements that make up the current forecast prove to be different. I have taken a prudent view of what may be possible to achieve to address the pressure areas described in the budget, to minimise and protect the contingencies not yet used. With the action being taken to reduce expenditure, it is reasonable to estimate that the current forecast sits within a range:

Assumption	Impact
Improve income and collection levels and expenditure levels lower than currently forecast.	Potential surplus achieved at year end.
Actual spending and income in line with forecasts, estimates and judgements at Quarter 2. (Appendix 2)	Forecast of £0.8m over budget.
Additional cost pressures from, for example a severe winter, a higher pay award and additional demand pressures.	10% pay award for teachers would lead to a potential deficit of £7m at year end.

- 3.17 Summary of Appendices
- a) The financial statements contained within Appendix 1 reflect the income and expenditure for the period to September 2018 and reflect some of the statutory accounting adjustments required to ensure compliance with International Financial Reporting Standards (IFRS). These adjustments are described in the Appendix.
- b) The Balance Sheet figures at 30 September 2018 reflect the actual position at the balance sheet date where appropriate. The figures shown include statutory adjustments where these have been made, and where this is not possible the figure as at 31 March 2018 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. Due to the timing of the receipt of income from the Scottish Government and Non-Domestic Rates payers there is currently a significant net income position shown at 30 September 2018.

- c) Appendix 2 provides an overview of the forecast outturns for revenue and capital across the General Fund, Housing Revenue Account and Common Good. The uncertainty in relation to the General Fund is identified in the preceding paragraphs of the report and the Appendix presents the forecast based on a set of assumptions, estimates and judgements, which would result in a small over spend. The forecasts for Capital, the Housing Revenue Account and Common Good are all within budget.
- d) Appendix 3 presents the Common Good position as at 30 September 2018 and provides an overview that shows income exceeding expenditure for the period and therefore an increase in the value of the Common Good.
- e) Appendix 4 presents the Group Entities forecast for the year and indicates that there are no material areas of concern in relation to these entities for 2018/19.

4. FINANCIAL IMPLICATIONS

- 4.1 The financial performance of the Council's main accounts, General Fund, Housing Revenue Account and Common Good are presented in the Appendices.
- 4.2 Appendix 1 also includes a Management Commentary providing:
 - Further information on the Performance in Quarter 2; and
 - Information on the 2018/19 Forecast Financial Position, and this is expanded on in Appendix 2.
- 4.3 The audited accounts for 2017/18 demonstrated the Council's ability to effectively and actively manage its financial position. The Balance Sheet as at 31 March 2018 reflected substantial net worth in the organisation and a strong financial platform from which to operate in 2018/19 and to plan for the future.
- 4.4 The budget set for 2018/19 recognised that this would be another financially challenging year and that strong fiscal management coupled with financial restraint would be required to ensure that the budget was achieved, and that this would continue to underpin the Balance Sheet for future financial years.
- 4.5 The financial constraint described in the report is necessary based on the forecasts at Quarter 2 and due to the level of uncertainty in significant cost areas, described in section 3 and Appendix 2.
- 4.6 The Council continues to tackle increased demand and active management of elements of the budget that remain uncertain, and this requires continuous close fiscal management. Close monitoring of the elements of cost control is

being put in place to complement the savings tracking that is already in place. This monitoring is expected to provide prompt reporting of how expenditure levels and income collection is changing so that the Extended Corporate Management team is assured that the action is having the desired effect and to enable further actions to be taken.

- 4.7 The impact of expenditure exceeding budget on the General Fund at the year-end would be a draw from the General Fund balance that the Council keeps as part of its risk-based Reserves Policy.
- 4.8 The Housing Revenue Account and Common Good are forecast to end the year on or within budget therefore will maintain or increase the current value of their Balance Sheet resources.

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

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	The main financial risk the Council is managing is the increased demand on services.	L	Reviewing all areas of expenditure with a view to only incurring essential expenditure.
	The risk around the final cost of the pay award is significant for the Council given the proportion of the budget that is pay related.	M	Current forecasts are based on the pay offer by Employers, ensuring fiscal restraint is exercised in the second half of the year will provide assurance that future unknown costs can be met from within existing resources.
	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	Quantification and review of indicative project costs by suitably qualified staff or external body where appropriate.

Legal	None identified		
Employee	There is a risk that changes to budgeted expenditure levels and fiscal restraint will impact on the number of employees working in the Council.	M	Impact assessments can be carried out to identify impact of fewer staff and active management of tasks, including prioritisation and a focus on productivity.
Customer	There is a risk that changes to budgeted expenditure levels and fiscal restraint will impact on the customer experience.	M	Prioritisation, a focus on productivity and active management of services using the TOM principles to minimise effects.
Environment	None identified		
Technology	None identified		
Reputational	There is a risk that through the reduction of expenditure the Council may be criticised that spending isn't in line with budgets.	H	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.

7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
Prosperous Economy	The Council continues to plan for spending hundreds of millions of pounds in 2018/19 and 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	Robust and effective management of the Council's finances will ensure that services can continue to be provided.
Prosperous Place	Investment will enhance the place by creating a better and more vibrant city in which to live.

This report does not impact on the design principles of the Target Operating Model.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. BACKGROUND PAPERS

None.

10. APPENDICES

Appendix 1 – Financial Statement for the period ending 30 September 2018

Appendix 2 – Forecast Financial Position for the year 2018/19

Appendix 3 – Common Good Financial Statement for the period ending 30 September 2018

Appendix 4 – Group Entities Forecast Financial Position for the year 2018/19

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