

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	City Growth and Resources
<b>DATE</b>	10 November 2021
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Council Financial Performance – Quarter 2, 2021/22
<b>REPORT NUMBER</b>	RES/21/272
<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 2 (30 September 2021) and the full year forecast position for the financial year 2021/22, including:
- General Fund and Housing Revenue Account (HRA) and capital accounts; and associated Balance Sheet; and
  - Common Good revenue account and Balance Sheet.

### 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 2 as detailed in Appendix 1;
- 2.2 Note the Common Good financial performance to the end of Quarter 2 as detailed in Appendix 3;
- 2.3 Note that the General Fund full year forecast position, as detailed in Appendix 2, has improved compared to the forecast at Quarter 1 and it is still expected to show a balanced position overall for 2021/22 through the mitigations contained within the report;
- 2.4 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 2021/22;
- 2.5 Note that the forecast for General Fund capital expenditure is that there will lower spend than has been profiled for 2021/22, and for Housing capital expenditure this will be on budget, as described in Appendix 2;
- 2.6 Note the construction inflation pressures being experienced across the capital programmes and instruct the Chief Officer – Finance to recommend a risk

fund/contingency be included in the refreshed capital programmes which will be presented to the Council's budget meeting on 7 March 2022; and

- 2.7 Consider any additional actions that need to be taken in relation to the financial management of the Council.

### **3. BACKGROUND**

- 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 2021/22 on 10 March 2021 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 September 2021 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 impact of the ever-changing Covid-19 environment continues to change our understanding of the financial position, and the need to address ongoing costs pressures remains a feature as I report our Quarter 2 position and forecasts.
- 3.4 The appendices show that the IJB is forecasting a balanced position as at Quarter 2. The Board continue to rely on the Ministerial commitment to fund all of the identified mobilisation costs and therefore expect further funding announced to meet any shortfall. The Council continues to rely on this.
- 3.5 Further financial risks continue to emerge as the pandemic and the consequences continue and where these are known have been taken into account in the financial forecasts.
- 3.6 The Council retains a contingency budget to address unexpected and unplanned expenditure which 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. The Council were advised on 10 March 2021 that there has been a change in the nature of the contingent liability for development obligations under s75 agreements and instructed the Chief Officer - Strategic Place Planning to report to this Committee by the end of 2021 on the legally binding developer obligations that have been signed with the Council. That report, COM/21/246, is on the agenda of this Committee including details of all the amounts due from developers, paid and spent to date. In Appendix 1 it is highlighted that there is a risk, due to current market conditions in the house building industry that developer obligations may not be paid when expected, this may alter when and whether capital projects go ahead. It is recommended in that report that the Chief Officer of Strategic Place Planning monitor risks associated with the Developer

Obligations process and highlight these to the Chief Officer - Finance so that an assessment of financial risk can be carried out and included in the Councils financial performance reporting to this Committee and Budget report to Council.

- 3.7 As referenced above, an operational deficit of £12.8m is currently forecast based on this latest data, and this will be met from earmarked reserves held on the Council Balance Sheet.
- 3.8 While the earmarked reserves provide the solution at this time, these are finite and if the situation changes then further consideration of the situation would have to be made.
- 3.9 Changes that would benefit the Council in the short to medium term continue to be discussed at a national level, with the fiscal flexibilities that I described last year not yet available as expected. 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 PPP contracts) are not expected to be as advantageous based on the proposed changes to statutory guidance. Discussions on Capital Accounting and treatment of this fiscal flexibility continues between Scottish Government, Cosla and Local Government Directors of Finance. I have not assumed the use of the fiscal flexibility in forecasting the outturn for 2021/22.
- 3.10 Turning to the General Fund Capital Programme, all capital works have been affected by the lockdown restrictions and continue to be a factor in achieving the progress expected. That said, substantial progress is being made on key sites and completions are due later in the year. Spending is expected to be less than had been profiled for 2021/22 but consideration will have to be given to the rising costs in some areas of the programme, as detailed in Appendix 2.
- 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 in line with spending plans for 2021/22, although based on year to date expenditure I do feel there is a strong possibility of the level of slippage being greater than budget by the end of the financial year.
- 3.13 The Common Good is expected to spend more than budget, the saving from some events due in the early part of the year being cancelled has been offset by additional expenditure approved by the Committee. The investment of cash balances in a Multi-asset Income Fund has been put in place with Fidelity as the fund manager. The investment was transacted during Quarter 2. The first returns and valuation will be reported in the Quarter 3 report.
- 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 September 2021 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 September 2021 is positive as the profile of income from Scottish Government support expenditure levels.

The Balance Sheet figures at 30 September 2021 show an overall increase in net worth of the Council to £1.6 billion. The figures shown include statutory adjustments where these have been made, and where this is not possible the figure as at 31 March 2021 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 overspend by £12.8m with a drawdown of monies from earmarked reserves to fund the overspend in full. 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 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 September 2021 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 2021/22 and in the absence of the latest data 2020/21 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:

Revenue	2021/22 Budget £'000	2021/22 Forecast (Surplus) / Deficit exc. Group £'000	Variance (Under) / Over Budget £'000
General Fund	0	0	0
HRA	(500)	(500)	0
Common Good	(500)	(490)	10

4.2 The capital position can be summarised as follows:

<b>Capital</b>	<b>2021/22 Budget £'000</b>	<b>2021/22 Forecast Expenditure £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	250,258	157,752	(92,506)
HRA	147,884	147,884	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 2021/22 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 2021 £'000</b>	<b>Balance at 30 September 2021 £'000</b>	<b>Movement £'000</b>
General Fund	(71,603)	(187,422)	(115,819)
HRA	(14,715)	(45,842)	(31,127)
Statutory & Other	(13,082)	(13,243)	(161)
<b>Total</b>	<b>(99,400)</b>	<b>(246,507)</b>	<b>(147,107)</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. MANAGEMENT OF RISK

<b>Category</b>	<b>Risk</b>	<b>Low (L) Medium (M) High (H)</b>	<b>Mitigation</b>
<b>Strategic Risk</b>	Failure to manage Council finance and resources could lead to failure to achieve strategic objectives.	L	Robust financial reporting and monitoring activities, combined with a rigorous financial planning process as 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.	L	Annual external audits are undertaken to review the financial transactions and controls. Ongoing internal audits also review specific financial and service data.
<b>Operational</b>	There is the risk that there may be an IT system failure.	L	Daily backups taken and held offsite for security purposes. Constant review and update of security systems for IT.
<b>Financial</b>	<p>The main financial risk the Council is managing is the increased demand on services and ongoing Covid-19 implications.</p> <p>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.</p> <p>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).</p>	<p>M</p> <p>M</p> <p>H</p>	<p>Reviewing all areas of expenditure with a view to only incurring essential expenditure. Regular reporting and action taken where appropriate.</p> <p>Quantification and review of indicative projects costs by suitable qualified staff or external body, where appropriate.</p> <p>Current permission from Scottish Government to use capital receipts for voluntary severance / early retirement revenue costs ends on 31 March 2022. Unless extended, alternative revenue funding would have to be found or changes made to the scheme.</p>
<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.	M	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.
<b>Environment / Climate</b>	None identified		

## 7. OUTCOMES

<b><u>COUNCIL DELIVERY PLAN</u></b>	
	<b>Impact of Report</b>
<b>Aberdeen City Council Policy Statement</b>	<i>Financial planning, budget setting and resource allocation are all enablers for the delivery of the outcomes and regular performance reviews ensure that the Council's stewardship and financial management are robust.</i>
<b>Aberdeen City Local Outcome Improvement Plan</b>	
Prosperous Economy Stretch Outcomes	The proposals in this report have no impact on the LOIP
Prosperous People Stretch Outcomes	The proposals in this report have no impact on the LOIP
Prosperous Place Stretch Outcomes	The proposals in this report have no impact on the LOIP

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Impact Assessment</b>	not required
<b>Data Protection Impact Assessment</b>	not required

## 9. BACKGROUND PAPERS

None.

## 10. APPENDICES

Appendix 1 – Financial Statement for the period ending 30 September 2021

Appendix 2 – Forecast Financial Position for the year 2021/22

Appendix 3 – Common Good Financial Statement for the period ending 30 September 2021

Appendix 4 – Group Entities Forecast Financial Position for the year 2021/22

## 11. REPORT AUTHOR CONTACT DETAILS

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