PROJECTED FINANCIAL POSITION FOR THE YEAR 2022/23

Contents

MANAGEMENT COMMENTARY

This is the second reporting point in the year for the Council's finances, following approval of the budgets in March 2022. The full year budgets reflected in the table below differ from those set by Council in March 2022 for a number of reasons. This is normal practice during the year as virements are identified and budget responsibilities change. In common with previous years there are pressures on the organisation that emerge during the year and this year the Council continues to be impacted by changes, response and recovery arising from the Covid-19 pandemic. As reported to the Committee in June 2022, supply chain volatility [RES/22/131] is significant at present and expected to continue and inflation is at a level not seen for decades and these are further factors that are having a major impact on our financial position.

Further financial turmoil was experienced in Quarter 2 as government borrowing costs rose steeply following the mini-budget delivered by the Chancellor on 23 September 2022. The financial support and tax-cutting initiatives announced have been substantially reversed and the rates in recent days have continued to reduce, however it is clear that future borrowing is costing the Council more and this, combined with the challenges inflation and supply chain issues will make future capital investment more expensive.

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 30 September 2022. The forecast for the year is built on the information that was available at this time.

The General Fund is forecast to exceed budget by £4.4m and it is recommended that, as stated above, managers take action to reduce, stop or delay expenditure that they can in the remainder of the financial year, and if a balanced budget cannot be achieved then the Council will rely on earmarked reserves to fund the deficit, Housing Revenue Account and Common Good are all forecast to deliver in line with budgets set for 2022/23.

General Fund

With reference to the table below, key areas of the budget that the Council is managing are as follows:

The rising cost in gas and electric will affect all Council services to some degree. This is forecast to be £5.3m more than had been budgeted, before being offset in part by the centrally held inflation contingency. (Operations £3.265m, Customer £0.451m, Commissioning £0.161m and Resources £1.430m). These forecasts are included in the table below.

It should also be noted that Council Services are feeling the impact of the increase in inflation on the costs of goods and services that they are purchasing.

As highlighted last quarter, the Council's Waste and Recycling Facility at Altens East, operated by Suez, suffered a severe fire on 8 July 2022. The forecasts contained in this report have been updated to take account of the known implications, which relate to contractual relationships between the Council and Suez, and there remains contractual matters that have been reflected as Contingent Liability in Appendix 1. The fire has implications for the Council balance sheet in respect of the impairment of asset value, and I am assured that insurance is in place to address the damage that has been done and reinstatement of the facilities. Insurance excess means cover is provided above £250,000, the excess will be funded by the Insurance Fund in the first instance.

Based on the forecasts for the year key highlights are as follow.

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 & 2021/22 which indicates the service is returning to normal following the Covid-19 restrictions.
   - Car Parking income was severely affected by the pandemic, and whilst it is now recovering it is unlikely the budgeted income will be achieved.
   - Roads are forecasting an overspend in street lighting as a result of the increase in energy costs.

   For Education the service is managing a substantial increase in children who have arrived in the city. This has been unexpected and is driven by two factors, the post-Covid increase of students from other countries to the two Universities, who are bringing their families with them. It is expected to continue through the forthcoming and future admission cycles. Secondly the number of children (and families) in the city seeking refuge from Ukraine. Work is currently ongoing in reviewing the impact of the September census on class sizes.

   - Also, within Education there are increased costs of the 3R's unitary charge due to the inflationary uplift that will apply, and long-term absence spend will be over budget for 2022/23, this is being closely monitored.
   - In Education there are a relatively small number of teaching vacancies that are mainly in secondary schools in subjects which continue to be hard to recruit to, or in demand, for example: Design Technology, Maths, English and some Sciences.
   - There is a risk that Early Years will not achieve the budgeted income from Cross Boundary Charging as the difference in the number of children between local authority areas is not as significant as anticipated.

2. The main areas of pressure within Customer are:

   - There is a risk that the level of rental income from Homeless Flats may be lower than budget due to the levels of in year activity to the end of the quarter, this is largely offset by increased income levels for hostels.
   - Digital & Technology are experiencing a cost pressure whilst transitioning to new contracts and increasing digital services. There is a risk that automation budget savings may not be fully achieved this year as they are not fully aligned to the services to which they relate.

3. The main areas of pressure within Commissioning are:

   - Governance is expecting an under recovery of licencing income.
   - Commercial services will be monitored, now that Covid restrictions have been removed it is anticipated a return to pre-pandemic levels of business could be achieved.
   - Procurement budget savings will not be allocated across services as the savings will not be achieved due to the market position for most 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 includes the additional costs of energy for corporate facilities and, also the Energy Centre and AD Plant at The Events Complex Aberdeen, and related contracts.

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 supplier sustainability.
- There is a risk that there will be higher than anticipated spend on direct payments to clients in areas such as homecare as the IJB's care providers are operating at maximum capacity.

The IJB is still incurring additional costs due to the impact of Covid-19. For 2022/23 the Scottish Government will only cover specific categories of covid costs relating to supplier sustainability payments, extra staff costs and Personal Protective Equipment (PPE). Other categories of covid costs such as extra care home placements and lost income will not be covered by the Scottish Government as it was in previous years.

The Council is forecasting that additional costs will be covered by additional Scottish Government grant for eligible costs, savings achieved elsewhere, or by using Reserves held at the start of the financial year. Therefore, no additional pressure is expected on the General Fund from the IJB.

6. The Joint Boards budget and forecast outturn is based on the amount requisitioned by Grampian Valuation Joint Board. This is currently forecast be on budget.

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 incudes the impact of accounting for loans fund repayments on a prudent basis, approved by the Audit Risk and Scrutiny Committee in April 2019.

To respond to the financial pressures faced by local authorities as a result of the pandemic, the Scottish Government provided a package of financial flexibilities that could be used by local authorities to address funding pressures. One of these was the option to defer the repayment of debt for one year. The Council has opted to utilise this option for 2022/23. This will provide a saving of £9.1m. The repayment of this debt must then be made within 20 years from the end of the 2022/23 financial year.

As highlighted above, and in Appendix 1, the financial turmoil recently has only exacerbated the rising cost of borrowing, which had begun to push upwards this year, the cost of capital investment will rise from previous forecasts due to the current economic environment, with borrowing rates up at 2011 levels, very high inflation – above Government and Bank of England targets – and supply chain volatility.

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 above budget at

this time due specifically to the lack of vacancies in teaching posts, despite a regular turnover of posts.

Local Government pay negotiations are ongoing at this time, and while the Council has made provision within its budget for an average award of 2% across the workforce, without additional, recurring, Scottish Government financial support there is now a certainty that the pay award will add cost to the bottom line. A value of £4.5m has been allocated from contingencies to support this. (Note, this is in addition to additional funding from Scottish Government through both revenue and capital grants).

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, however this year the commitment to the pay award and the forecast now of an overall deficit on the budget mean that there is no scope for additional expenditure to be absorbed, as any residual deficit will have to be met from earmarked reserves. That does not stop future unplanned events taking place or from implications arising from the risk registers and, where identified, contingent liabilities becoming more certain (see Appendix 1). It means at this stage that the Council relies on the strength of its balance sheet to address future unknown costs.

9. Council Expenses include 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. 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 for Local Government. This has changed since quarter 1 as the government has announced a funding redetermination for whole family wellbeing funding. Actual income for redeterminations will be received by the Council in March 2023.

12. Council Tax income is forecast to be above budget for 2022/23 based on collection levels that were better than expected in 2021/22, along with the 3% increase agreed by the Council in setting the 2022/23 budget.

13. Use of Reserves. The Council approved in its 2022/23 budget that a sum of £5.519m will be used from earmarked General Fund reserves to fund the budget. The Council expects to draw down this amount in full.

Housing Revenue Account

14. The overall HRA budget is balanced however there are several areas of pressure. These are the increases being experienced in repairs and maintenance from the cost of materials, utilities, and housing voids. The higher costs in these areas will be offset by a reduced contribution to Capital from Current Revenue (CFCR), and with that the cost of capital financing may also increase given the many factors impacting capital investment at this time.

Earmarked Reserves

As at 1 April 2022 the Council held £62.9m 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 expenditure being set against the finite reserves held at the start of the year. As an example, the Council expects to continue to incur expenditure from the Transformation Fund in 2022/23 progressing the digital programme of transformation.

The other significant earmarked reserves to draw attention to at this time is the Second & Long-term Empty Properties reserve (£13.110m), which is set aside for affordable housing. Expenditure in 2022/23 will depend on the progress with a number of developments including Summerhill, and the amount of Scottish Government funding and Section 75 income (developers' contributions) to be used as this funding is time limited, these funds support the delivery of additional social housing by the Council.

As referenced earlier in the report, the earmarked Covid-19 Grants (£19.016m) are for areas such as Education recovery, income shortfall and General support to Council services. It is anticipated at this stage much of this funding will be fully utilised to employ additional teachers, support staff within Education, support income shortfalls in such areas such car parking and commercial properties, essentially using the general sums available to balance the budget should a deficit remain at the end of the financial year– and this is subject to action being taken to reduce, stop and delay expenditure in the second half of the year.

Balancing the Budget through Controls and Monitoring Structures

Specific actions that will continue, to manage spending and work towards reducing the operating deficit include:

- Further instruction to all budget holders to reduce, stop or delay expenditure wherever possible to reduce the outturn position.
- 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 part of the vacancy advertising process.
- 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 2022/23.
- The voluntary severance / early retirement scheme is how the Council has incentivised workforce reductions. This is an expensive scheme, funding must 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 £0.8m on the balance sheet at 31 March 2022. 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.

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 – this is chaired by the Chief Officer for Capital.

The Performance Board has oversight of the financial performance reporting, this is co-chaired by the Directors of Resources and Chief Officer – Data & Insight 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 risks to the Council remains the recovery of income and reduction in resources directed towards recovery from the impacts of Covid-19, the high inflation level and extremely high increases experienced in the cost of energy supplies as these will continue to have a substantial impact on Council services.

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 deficit of £4.4m, with an instruction to budget holders to minimise where possible and protection to fund any remaining deficit provided by the Council's balance sheet in earmarked reserves. The Housing Revenue Account is in a balanced position, and this is captured in the tables set out below.

General Fund Financial Reporting Summary 2022/2023 - Quarter 2

As at 30 September 2022	Budget 2022/2023	Outturn 2022/2023 Quarter 2	Variance from Budget		Notes
	£'000	£'000	£'000	%	
Operations	278,314	285,042	6,728	2.4	1
Customer	42,259	43,391	1,133	2.7	2
Commissioning	23,010	24,568	1,558	6.8	3
Resources	(2,763)	5,238	8,000	(289.6)	4
Integrated Joint Board	116,639	116,639	0	0.0	5
Total Functions Budget	**457,459**	**474,877**	**17,419**	**3.8**	
Joint Boards	1,858	1,858	0	0.0	6
Miscellaneous Services	63,280	53,521	(9,760)	(15.4)	7
Contingencies	4,057	1,855	(2,202)	(54.3)	8
Council Expenses	1,518	1,522	4	0.3	9
Total Corporate Budgets	**70,713**	**58,756**	**(11,957)**	**(16.9)**	
Non Domestic Rates	(268,557)	(268,557)	0	0.0	10
General Revenue Grant	(124,858)	(124,858)	0	0.0	11
Government Support	**(393,416)**	**(393,416)**	**0**	**0.0**	
Council Tax	(129,237)	(130,288)	(1,051)	0.8	12
Local Taxation	**(129,237)**	**(130,288)**	**(1,051)**	**0.8**	
Contribution from Reserves	(5,519)	(5,519)	0	0.0	13
Contribution from Reserves	**(5,519)**	**(5,519)**	**0**	**0.0**	
Deficit/(Surplus)	**(0)**	**4,411**	**4,411**	**0.0**	

Housing Revenue Account Summary 2022/2023 - Quarter 2

Deficit/(Surplus)	**(500)**	**(500)**	**0**	**(0)**	**14**

General Fund Capital Programme

The reprofiling of capital project budgets approved at Council on 24 August 2022 has now been incorporated into the Capital Programme.

The Capital Programme also now includes £0.135 million funding from the Scottish Government towards extending the Nature Restoration Fund into 2022/23.

The General Capital Grant has also been increased by £4.35 million as part of the funding mechanism for the Local Government Pay Award in 2022/23, the conversion of this to revenue funding to enable this to happen is being carried out in conjunction with flexibilities permitted by Scottish Government ministers, therefore the treatment of this sum may change once the flexibilities are finalised.

Officers are awaiting the outcome of several funding bids, including a second Levelling Up Fund bid in relation to the Beach Masterplan

	2022/23			
As at Period 6 2022/23	**Revised Budget for Year £'000**	**Actual Expenditure for Year £'000**	**Forecast Outturn £'000**	**Outturn Variance from Revised Budget £'000**
AECC Programme Board	4,108	1,097	4,108	0
Asset Management Programme Board	63,486	24,255	55,723	(7,763)
Asset Management Programme Board Rolling Programmes	33,020	8,785	26,079	(6,941)
City Centre Programme Board	40,353	12,727	22,813	(17,540)
Energy Programme Board	57,126	17,685	33,587	(23,539)
Housing and Communities Programme Board	1,244	3	1,020	(224)
Housing and Communities Programme Board Rolling Programmes	998	332	600	(398)
Transportation Programme Board	23,704	2,500	23,610	(94)
Transportation Programme Board Rolling Programmes	1,874	684	1,874	0
Strategic Asset & Capital Plan Board	12,067	587	8,630	(3,437)
Strategic Asset & Capital Plan Board Rolling Programmes	1,881	1,517	1,881	0
Developer Obligation Projects & Asset Disposals	0	137	86	86
Total Expenditure	**239,860**	**70,307**	**180,011**	**(59,849)**
Capital Funding:				
Income for Specific Projects	(64,115)	(13,951)	(52,776)	11,339
Developer Contributions	0	(87)	(86)	(86)
Capital Grant	(23,123)	(9,454)	(23,123)	0
Other Income e.g. Borrowing	(152,622)	(46,815)	(104,026)	48,596
Total Income	**(239,860)**	**(70,307)**	**(180,011)**	**59,849**

Profiling of project budgets and forecasting of outturns remains challenging given the wide range of factors still affecting construction supply chains. As such the forecast outturns quoted above represent a point in time and there is a strong probability that they will be subject to change as the financial year progresses and additional information becomes available.

Further details of these factors were included in the report Supply Chain Volatility – RES/22/131 presented to the City Growth and Resources committee on 21 June 2022.

Expenditure for Quarter 2 2022/23 includes continued progress on the New Schools programme, particularly Countesswells Primary and Torry Primary and Community Hub. Works on extending the Torry Heat Network are also advancing, along with design development for the City Centre and Beach Masterplans. The good weather throughout the summer months has also assisted progress on the rolling programmes for investment in Roads and Council buildings.

The construction contract for the new North East Scotland and Northern Isles Integrated Mortuary was finalised during Q2 2022/23 with contract signature expected early in Q3 2022/23.

Housing Capital Programme

The pause of the four Housing Capital Council led new build projects as agreed at City Growth & Resources on 3 August 2022 has now been included within the updated Housing Programme out-turn. This may be subject to change depending on future decisions taken following retendering

Spend is low in the rolling programme in areas such as kitchen, bathroom, structural repairs, lift and window replacements. This is a result of earlier supply chain issues. Higher spend is occurring in Heating Replacement programmes due to the level of breakdowns experienced. Out-turns have been updated to reflect spend to date and future contractual spend in the most significant budget areas.

Housing Capital Programmes	**Approved Budget**	**Expenditure to date**	**Forecast Expenditure**
As at 30 September 2022	**£'000**	**£'000**	**£'000**
Compliant with the tolerable standard	1,590	23	1,000
Free from Serious Disrepair	12,859	1,391	8,657
Energy Efficient	9,655	4,086	11,156
Modern Facilities & Services	5,277	937	2,000
Healthy, Safe and Secure	8,796	1,918	8,796
Non Scottish Housing Quality Standards			
Community Plan and Local Outcome Improvement Plan	6,225	2,052	6,225
Service Expenditure	4,783	121	4,783
2000 New Homes Programme	138,698	37,797	90,835
less 11% slippage	(5,410)		
Net Programme	**182,473**	**48,325**	**133,452**

Capital Funding			
Borrowing	(131,425)	(32,801)	(88,259)
Other Income - Grants Affordable Homes etc	(35,074)	(7,807)	(35,074)
Capital Funded from Current Revenue	(15,974)	(7,717)	(10,119)
Total	(182,473)	**(48,325)**	**(133,452)**

Common Good

As at September 2022	Full Year Budget 2022/23 £'000	Forecast Actual Expenditure £'000	Variance from Budget £'000
Recurring Expenditure	3,336	3,315	(21)
Recurring Income	(4,431)	(4,431)	0
Budget after Recurring Items	**(1,095)**	**(1,116)**	**(21)**
Non Recurring Expenditure	776	776	0
Non Recurring Income	0	0	0
Net (Income)/Expenditure	**(319)**	**(340)**	**(21)**
Cash balances as at 1 April 2022	**(38,633)**	**(38,633)**	
Net Expenditure from Income & Expenditure	(319)	(340)	(21)
Investment Revaluation (Increase)/Decrease	0	3,738	3,738
Net Capital Receipt	0	0	0
Cash Balances as at 31 March 2023	**(38,952)**	**(35,235)**	**3,717**

Notes

- The Common Good is forecast to be on slightly above budget as at 30 September 2022.
- The investment of cash balances in a multi-asset income fund, approved by Council on 10 March 2021 has now been implemented. The value of the investment may fall as well as increase, this will be reported quarterly. As at 30 September 2022 the value of the investments was £24.043m, a reduction on the quarter of £3.738m. Cash balances will be affected by this change as will the overall Net Value of the Common Good.
- The investment with Fidelity remains a long-term investment and should be measured over a 3 to 5 year period.
- Income levels expect to be maintained and the budgeted income achieved
- Recurring expenditure is generally forecast to be on budget, with events expecting to proceed this year, uninterrupted by Covid-19 restrictions, and grants payable throughout the year to the wide range of approved organisations.
- The budgets to support Civic activities reflect the adjustments approved at City Growth & Resources Committee on 21 September 2022, with funding being directed to support winter clothing for children that are eligible for school clothing grants.