

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Finance and Resources
<b>DATE</b>	1 February 2023
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Council Financial Performance – Quarter 3, 2022/23
<b>REPORT NUMBER</b>	RES/23/049
<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 3 (31 December 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

### 2. RECOMMENDATION(S)

That the Committee :-

2.1 Note the cash position that has been achieved for the General Fund and HRA to the end of Quarter 3 as detailed in Appendix 1;

2.2 Note the Common Good financial performance to the end of Quarter 3 as detailed in Appendix 3, specifically the £1.1m reduction in cash balances due to investment volatility;

2.3 Note that the General Fund full year forecast position has moved positively since the Quarter 2 report was considered by the Committee as detailed in Appendix 2, and is now expected to show a deficit of £2.1m for 2022/23, and that the Chief Officer – Finance has instructed that budget holders act to delay, stop or reduce expenditure wherever possible to mitigate this deficit; and note that any remaining deficit will be mitigated from the use of earmarked reserves;

2.4 Note that the HRA full year forecast position, as detailed in Appendix 2, is on target to achieve the approved budget;

2.5 Note that the Council relies on the Integration Joint Board (IJB) achieving a balanced budget, and that the IJB retains reserves to mitigate unplanned additional costs arising during the year;

- 2.6 Note that the forecast for General Fund and Housing capital expenditure is that there will be lower spend than had been budgeted in 2022/23 as described in Appendix 2; and
- 2.7 Note that the Council has introduced new processes in respect of a recruitment freeze, and has recently promoted the Voluntary Severance / Early Retirement scheme, these actions are designed to assist in the management of the pay bill both this year and going forward.

### **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 31 December 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 3 position and forecasts.
- 3.4 Further financial risks from the war started by the Russian invasion of 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 considered in the financial forecasts. Quarter 2 included some of the most significant financial market turbulence seen for years, with the cost of government borrowing rising and interventions by the Bank of England. The consequence is that these higher rates are increasing the cost of capital investment for the Council which will affect affordability tests for capital projects.
- 3.5 A specific example of the current operating environment is the number for families arriving in the city, either through the Ukrainian resettlement programme or through students (arriving with their families) from outside the UK coming to study at the two universities following a hiatus during Covid. This has pushed pupil numbers up in our schools to new levels. Funding is available through the resettlement schemes from UK and Scottish Governments, and it is encouraging that funding is now being received to pay for our bespoke resettlement activities for Ukrainians, but also to support general service delivery, such as Education, that have experienced significantly increased demand this year. There are no funding streams related to students and their families arriving in the city.

- 3.6 The appendices show that the IJB is forecasting a balanced position as at Quarter 3. 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. It should be noted that on the 16 January 2023 the Director of Health Finance and Governance confirmed to Health and Social Care Partnerships that the Scottish Government is seeking a return of IJB Reserves held at 31 March 2022 of c.£330m, and for Aberdeen City this amounts to £9.7m. This has been identified as funding held that is not forecast to be used in financial year 2022/23, and the IJB will consider this and any implications at their next Risk, Audit and Performance Committee
- 3.7 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
- 3.8 The financial impact of the pay award agreed with two of the four pay bargaining groups, and the offers made to the two remaining groups means that much of the contingencies have been committed to fund pay in 2022/23. However, the pay negotiations for 2022/23 are not yet concluded, with two bargaining groups still to be concluded, Chief Officers and Teachers, which resulted in the first round of teacher strikes taking place in December, and these have continued into January and are next scheduled to place on 1 February 2023 in Aberdeen. Until these negotiations are resolved there remains significant risk of potentially unfunded additional cost to the Council, with the consequential impact of additional financial burden arising in 2023/24 on a recurring basis. The Council would have to rely on its Balance Sheet and usable reserves if Contingencies are fully utilised during the year.
- 3.9 As referenced above, a £2.1m deficit position is currently forecast based on this latest data, and this will be funded from the use of earmarked reserves held on the Council Balance Sheet should the position not improve in the final quarter.
- 3.10 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.
- 3.11 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 again by Council in August 2022 following the unprecedented volatility in the market. That said, progress is being made on key sites that are currently under construction, while others have been paused to retender. 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.

- 3.12 The Capital Programme spend being lower than budget, primarily due to the pausing of some sites/projects but also the delays in timing of expenditure, will reduce the requirement for borrowing during this financial year and will defer the revenue cost until future years. Project progress will now be monitored through this Committee.
- 3.13 The Housing Revenue Account is forecasting to be on budget and the associated Housing Capital Programme is currently expected to be below budget, for similar reasons to the General Fund programme, with paused sites and delayed expenditure due to current market conditions and operating arrangements.
- 3.12 Operationally the Common Good is expected to be slightly ahead of 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 fallen since outset, but this fall has slowed down in Quarter 3. This amounted to a further £3.5m 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 31 December 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 31 December 2022 is positive as the profile of income from Scottish Government supports expenditure levels.

The Balance Sheet figures at 31 December 2022 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 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 £2.1m over budget, with instruction to budget managers to delay, reduce, stop expenditure where possible aiming to mitigate this, the use of earmarked reserves provides the assurance that the General Fund can be balanced for the year. 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 31 December 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 Quarter 3 and in the absence of Quarter 3 information the latest 2022/23 data 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	2,093	2,093
HRA	(500)	(500)	0
Common Good	(319)	(340)	(21)

- 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	240,757	158,648	(82,109)
HRA	182,473	133,452	(49,021)

- 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 31 December 2022 £'000</b>	<b>Movement £'000</b>
General Fund	(72,152)	(184,789)	(112,637)
HRA	(15,215)	(29,733)	(14,518)
Statutory & Other	(20,859)	(21,541)	(682)
<b>Total</b>	<b>(108,226)</b>	<b>(236,063)</b>	<b>(127,837)</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.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H)  *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
<b>Strategic Risk</b>	Failure to manage Council finance and resources could lead to failure to achieve strategic objectives.	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.	M	Yes
<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.	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	The Council has continued to address priority spending areas,	M	Yes

	reduction of expenditure the Council may be criticised that spending isn't in line with public expectation of service delivery.	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			

## 8. OUTCOMES

<b><u>COUNCIL DELIVERY PLAN</u></b>	
	<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
<b><u>Aberdeen City Local Outcome Improvement Plan</u></b>	
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

<b>Assessment</b>	<b>Outcome</b>
<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 31 December 2022

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

Appendix 3 – Common Good Financial Statement for the period ending 31 December 2022

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

## 12. REPORT AUTHOR CONTACT DETAILS

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