

ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources
DATE	22 November 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Council Financial Performance – Quarter 2, 2023/24
REPORT NUMBER	RES/23/378
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Lesley Fullerton
TERMS OF REFERENCE	1.1

1. PURPOSE OF REPORT

- 1.1 To provide the financial position of the Council as at Quarter 2 (30 September 2023) and the full year forecast position for the financial year 2023/24, including:
- General Fund and Housing Revenue Account (HRA) and capital accounts; and associated Balance Sheet; and
 - Common Good revenue account and Balance Sheet

2. RECOMMENDATIONS

That the Committee :-

- 2.1 Note the 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 remains very uncertain at this time and subject to the continued implementation of actions as per Appendix 2, and no further financial shocks, then a full year outturn position of 'on budget' is anticipated;
- 2.4 Note that financial resilience to mitigate the risks of overspending is underpinned by the resources available on the Council Balance Sheet and General Fund Reserves in particular. As at 31 March 2023 the uncommitted value of those reserves was £12m, the minimum that the Council Reserves Statement recommends and as approved by the Council.
- 2.5 Note that the HRA full year forecast position, as detailed in Appendix 2, is on target to achieve the approved budget, but faces challenging cost pressures;

- 2.6 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;
- 2.7 Note that the forecast for General Fund Capital budget is that it will be lower than its revised budget and Housing Capital expenditure while closer to budget is also expected to be lower than budgeted in 2023/24 as described in Appendix 2; and
- 2.8 Note that earlier this month Cosla agreed to implement the pay award for non-teaching staff and this will be paid to staff in December. This will bring greater certainty to our financial forecasts as assumptions made and sums set aside for the pay award will now be able to be finalised, including the additional contribution the Council will have to make. The pay offer also relies on additional funding from Scottish Government, and all of these actuals and revised budgets will be included in the Quarter 3 forecasts, due to be reported to the Committee in January 2024.

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 expenditure. 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 2023/24 on 1 March 2023 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 2023 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 global, national, and local conditions is having local implications for the financial position, and the need to address ongoing cost pressures remains a feature of the Quarter 2 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. The financial year 2022/23 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 of all these factors is that capital investment is getting more expensive and the Council needs to consider the choices it makes, to fund increasingly expensive capital works or to fund increasingly expensive service delivery. Taking opportunities to reduce or slow down the capital programme will have the benefit of reducing the financing costs as well as the revenue implications of assets becoming operational.

- 3.5 A specific example of the current operating environment is the number of 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 2. The Board retain reserves to use to support operations and the Council continues to rely on the financial position of the IJB to mitigate any exposure the Council has to additional funding.
- 3.7 In Appendix 2 the challenges of balancing the General Fund budget across the year are explained in detail, however achieving a balanced position is not without its uncertainty. To mitigate this the Corporate Management Team have reiterated the need for increased scrutiny of all costs.
- 3.8 The Establishment Control Board (ECB) has implemented key controls:
- i. Robust Recruitment Freeze. This will mean that only essential posts are recruited to when a vacancy arises.
 - ii. Agency Freeze. The use of agency workers should only be used for a short-term need, on average up to 13 weeks. The ECB will implement tighter controls where all agency requests must be supported by the relevant Chief Officer and then passed to the ECB for consideration. People and Organisational Development (P&OD) will also undertake a review of current agency to seek assurance that the council is only using agency for short term essential need.
 - iii. Overtime Freeze. Overtime is currently approved at service manager level. Like (ii) above, all future overtime requests will require the support of Chief Officer. Overtime requests should only be used for emergency-type need where the resource requirement is not planned. Again, P&OD will review current overtime usage and work with the business to ensure that it is being used effectively.
- 3.9 Due to the continued uncertainty of the fiscal environment and the recognition of new service demand entering our system, further controls are in place to effectively manage non-essential spend and control additional spending resulting from unplanned demand. Demand Management Control Board controls and a review of authorisation and approval processes will focus attention on reducing expenditure on the goods and services we have to purchase.
- 3.10 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.

- 3.11 As last year, the risk from pay negotiations not having been concluded (non-teaching bargaining groups), has continued to hang over our financial forecasting throughout the first half of the year. Only at the start of November has a decision been taken by Cosla to implement the pay offer, with Unison calling off strike action and balloting members following a revised offer on 3 November 2023. The Council is now working to ensure that payment of the pay award is made in the December payroll.
- 3.12 Finalising the pay award for all staff will bring certainty to the financial forecasts in Quarter 3. Local Government has contributed a further £10m across Scotland to the revised pay offers, and the conclusion of the pay negotiations also brings clarity on the additional funding that will be received from the Scottish Government to support the pay award. All of this will be incorporated into the Quarter 3 financial performance report in January 2024.
- 3.13 The additional funding that the Council will have to find to support the revised pay offer is in the region of £600,000 and this will be met from Council contingencies in 2023/24, but that sum is subject to the actual cost of implementing the pay award and the actual amount of funding the Council will receive from Scottish Government. It does place additional pressure on 2024/25 as the Council funded elements of the pay award will not be supported by Scottish Government on a recurring basis.
- 3.14 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 is being monitored by this Committee, and the Chief Officer – Capital and a further review was reported to this Committee on 13 September 2023, with the reprofiling incorporated in the Capital Programme detailed in Appendix 2. A Capital report is also on the agenda for this Committee.
- 3.15 The Housing Revenue Account (HRA) is forecasting to be on budget and the associated Housing Capital Programme is forecasting an underspend. It is likely that capital spending will be lower than forecast due to the prioritisation of work on voids shifting resources from capital to revenue works. It is notable that the contribution from rents towards the Capital Programme is reducing and in-year will be reduced against budget. This is a reflection of the additional and rising costs being experienced in the HRA.
- 3.16 Operationally the Common Good is expected to be in line with budget. The investment of cash balances in a Multi-asset Income Fund has been put in place with Fidelity as the fund manager since 2021. This continues to deliver the level of income the Common Good was expecting, however the value of the underlying investment has fallen by £7m since outset. 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.

3.17 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 2023 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 2023 is positive as the profile of income from Scottish Government supports expenditure levels.

The Balance Sheet figures at 30 September 2023 show an overall net worth of the Council of £1.7 billion. The figures shown include statutory adjustments where these have been made, and where this is not possible the figure as at 31 March 2023 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 on budget, subject to no financial shocks emerging and with instruction to budget managers to delay, reduce, stop expenditure where possible and ECB controls remaining tight. This aims to mitigate the risks however the use of earmarked reserves provides the assurance that the General Fund would have the in-year resilience to rely on. The Council will continue to manage cost pressures across the whole portfolio of services with all other revenue accounts 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 contribution from Housing revenue to support the Housing Capital programme.
3. This presents the Common Good position as at 30 September 2023 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 2 and in the absence of Quarter 2 information the latest 2023/24 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:

Revenue	2023/24 Budget £'000	2023/24 Forecast (Surplus) / Deficit exc. Group £'000	Variance (Under) / Over Budget £'000
General Fund	0	0	0
HRA	(500)	(500)	0
Common Good	0	0	0

4.2 The capital position can be summarised as follows:

Capital	2023/24 Budget £'000	2023/24 Forecast Expenditure £'000	Variance (Under) / Over Budget £'000
General Fund	241,547	178,269	(63,278)
HRA	159,015	158,615	(400)

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 2023/24 financial position, including details of the movement between Reserves.

4.5 The usable reserves have moved as follows:

Usable Reserves	Balance at 31 March 2023 £'000	Balance at 30 September 2023 £'000	Movement £'000
General Fund	(85,928)	(218,197)	(132,269)
HRA	(15,715)	(22,911)	(7,196)
Statutory & Other	(53,901)	(47,888)	6,013
Total	(155,544)	(288,996)	(133,452)

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?
Strategic Risk	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
Compliance	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
Operational	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
Financial	The main financial risk the Council is managing	Reviewing all areas of expenditure with a view to only incurring essential expenditure.	M	Yes

	<p>is the supply chain and inflation impact on costs.</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>Forecasts have taken account of known implications 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. Review of Capital Programme was carried out and was reported to the September meeting of F&R Cttee.</p> <p>Having approved the implementation of the fiscal flexibility for service concessions, this will provide a source that will enable the funding of VSER costs.</p>	<p>M</p> <p>H</p>	<p>Yes</p> <p>Yes</p>
Reputational	<p>There is a risk that through the reduction of expenditure the Council may be criticised that spending isn't in line with public expectation</p>	<p>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</p>	<p>M</p>	<p>Yes</p>

	of service delivery.	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.		
Environment / Climate	None identified			

8. OUTCOMES

<u>COUNCIL DELIVERY PLAN</u>	
	Impact of Report
Aberdeen City Council Policy Statement	The proposals in this report have no impact on the Council Delivery Plan
<u>Aberdeen City Local Outcome Improvement Plan</u>	
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
Regional and City Strategies	The proposals in this report have no impact on Regional and City Strategies

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	It is confirmed by Chief Officer- Finance that no Integrated Impact Assessment is required
Data Protection Impact Assessment	not required
Other	not required

10. BACKGROUND PAPERS

None

11. APPENDICES

Appendix 1 – Financial Statement for the period ending 30 September 2023

Appendix 2 – Forecast Financial Position for the year 2023/24

Appendix 3 – Common Good Financial Statement for the period ending 30 September 2023

Appendix 4 – Group Entities Forecast Financial Position for the year 2023/24

12. REPORT AUTHOR CONTACT DETAILS

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