

ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources
DATE	30 January 2024
EXEMPT	No, except Appendices 5 & 6 (Paragraph 6 – Financial Affairs, Local Government (Scotland) Act 1973 Schedule 7A)
CONFIDENTIAL	No
REPORT TITLE	Council Financial Performance – Quarter 3, 2023/24
REPORT NUMBER	RES/24/031
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 3 (31 December 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. 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;
- 2.3 Note that the General Fund full year forecast position remains on track to achieve a full year outturn of 'on budget', and subject to any further financial shocks being experienced in the final quarter. Continuing action, as outlined in Appendix 2 will remain in place for the financial year;
- 2.4 Note that the Council maintains financial resilience with the resources available on the Council Balance Sheet, the 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 continues to face challenging cost

pressures as outlined in previous quarters and the 2024/25 HRA budget report, presented to Council in December 2023;

- 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, the Chief Officer – Finance has received assurance that the IJB will achieve a balanced budget for 2023/24;
- 2.7 Note that the forecast for General Fund Capital budget continues to reflect the previously reported position, that spending 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;
- 2.8 Note that the non-teaching staff pay award has now been agreed and was paid to staff in December. The budgets, actuals, and forecasts in Appendices 1 and 2 now include the pay award figures. The final pay award has relied on additional funding from Scottish Government of £3.5m, and a further contribution from the Council of £1.2m, £0.88m of which will be funded by reserves in 2023/24 and refunded by Scottish Government in 2024/25.
- 2.9 Note the transactions and approve the write off of debt as noted in exempt Appendix 5; and
- 2.10 Approve, as per the exempt Appendix 6, the extension of a bank guarantee to Transition Extreme for a further 12 months, until 31 March 2025, to a revised value of £125,000. Note the expectation that plans beyond April 2025 will enable the removal of this guarantee and instruct the Chief Officer – Finance to review the position during 2024/25 and provide an update in the 2024/25 Quarter 3 Financial Performance report.

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 31 December 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 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. 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 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 Over the last couple of years a specific example of the current operating environment has emerged, i.e. 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. Some funding has been available through the resettlement schemes from UK and Scottish Governments, however the terms of these has changed over time and less funding is now provided per person, and in the case of the Ukraine welcome hub funding, this has now been stopped due to financial constraint by the Scottish Government. There are no funding streams related to students and their families arriving in the city, although in the second half of this year the numbers have stabilised rather than increased further.
- 3.6 The appendices show that the IJB is forecasting a balanced position as at Quarter 3. 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 need for continued action. 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 Finalising the pay award for all staff this year has brought some welcome certainty to the financial forecasts in Quarter 3. COSLA agreed in September that Local Government would contribute a further £10m across Scotland to the revised pay offers, as part of the final negotiations in November it was also agreed that £24.2m of Councils reserves would be used to fund the final part of the pay award – which will be repaid to Councils in 2024/25.
- 3.12 The additional cost that the Council will have to fund to support the revised pay offer is in the region of £1.2m. Part of this (c.£0.3m) will be met from Council contingencies budget in 2023/24, while there will be a use of reserves to support the balance (c.£0.9m), which will be reinstated with funding from Scottish Government in 2024/25. The budgets for the final adjustments for pay will be updated in the final quarter to take account of what, in totality, is a complex funding settlement. Recurring funding for the 2023/24 pay award is due to be provided by Scottish Government for teachers and non-teaching staff pay in 2024/25.
- 3.13 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.
- 3.14 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.

3.15 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 £6m 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 for any single year.

3.16 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 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 31 December 2023 is positive as the profile of income from Scottish Government supports expenditure levels.

The Balance Sheet figures at 31 December 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 31 December 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 3 and in the absence of Quarter 3 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	(304)	(304)

- 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	241,813	124,243	(117,570)
HRA	159,015	109,694	(49,321)

- 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 31 December 2023 £'000	Movement £'000
General Fund	(85,928)	(186,956)	(101,028)
HRA	(15,715)	(22,889)	(7,174)
Statutory & Other	(53,901)	(55,683)	(1,782)
Total	(155,544)	(265,528)	(109,984)

- 4.6 The impact of writing off the debts as described in Appendix 5 are cost neutral to the Council, as provision for the non-repayment of the sums has previously been included and accounted for on the Council Balance Sheet.
- 4.7 The implication of granting an extension to the bank guarantee is that the Council will continue to be exposed to the company having an overdraft in the event of Company failure, the reduced value takes account of the forecast cash flow from the Company that would reduce the exposure the Council currently has.

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	Annual external audits are undertaken to review the financial transactions and controls. Ongoing internal audits also	L	Yes

	accounting legislation.	review specific financial and service data.		
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 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. Review of Capital Programme was carried out and was reported to the September meeting of F&R Cttee.	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 2).	Having approved the implementation of the fiscal flexibility for service concessions, this will provide a source that will enable the funding of VSER costs.	H	Yes

Reputational	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.	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.	M	Yes
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
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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 31 December 2023

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

Appendix 3 – Common Good Financial Statement for the period ending 31 December 2023

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

Appendix 5 – Loan and Unrecoverable Debt, Marischal Square – Exempt

Appendix 6 – Financial Guarantee – Transition Extreme - Exempt

12. REPORT AUTHOR CONTACT DETAILS

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