

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Finance and Resources
<b>DATE</b>	7 August 2024
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Council Financial Performance – Quarter 1, 2024/25
<b>REPORT NUMBER</b>	CORS/24/223
<b>DIRECTOR</b>	Andy MacDonald
<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 1 (30 June 2024) and the full year forecast position for the financial year 2024/25, 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 1 as detailed in Appendix 1;
- 2.2 Note the Common Good financial performance to the end of Quarter 1 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'. 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 2024 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 forecasting a deficit of £3.1m at this time and continues to face challenging cost pressures as outlined in Appendix 2 and the HRA Budget Report 24/25;

- 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 does not expect to require additional funding from the Council for 2024/25; and
- 2.7 Note that the forecast for General Fund Capital budget has been updated to include agreed adjustments and carry forwards from 2023/24. Housing Capital expenditure is currently forecasting on budget for 2024/25.

### **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 2024/25 on 6 March 2024 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 June 2024 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 Housing Revenue Account 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 1 position and forecasts for the remainder of the year.
- 3.4 The consequence of factors such as a 3 year period of high inflation, increased borrowing rates (compared to the last ten years) 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. The estimated cost of repaying borrowing for the General fund is approximately £60m (capital and interest) and represents 10.3% of revenue funding (GRG, NDR & Council Tax income); while for the Housing Revenue Account it is approximately £21.4m and represents 19.1% of the housing rental income for the year.
- 3.5 Population changes in the city over the last few years have had implications for education and homelessness services in the city, pushing pupil numbers up in our schools and homelessness presentations. These pressures alongside rising costs for the Council looking after children in need are all areas of the budget that officers are focused on managing and minimising across the remainder of the financial year.

- 3.6 The appendices show that the IJB is managing a significant financial challenge for 2024/25, while progress is being made to deliver a balanced budget is not yet forecast across the full year. 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 a need for continued action. To mitigate this the Corporate Management Team have reiterated the need for increased scrutiny of all costs and continued controls put in place last year.
- 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 workers 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. The value of uncommitted contingencies is £2.25m
- 3.11 The Capital Programme budget has been adjusted to include slippage from 2023/24 and further adjustments and is currently forecasting to be slightly under budget for 2024/25.

3.12 The Housing Revenue Account (HRA) is forecasting a deficit of £3.1m in line with budgeted expectations, 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.

3.13 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 £6.4m 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.

### 3.14 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 June 2024 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 June 2024 is positive as the profile of income from Scottish Government supports expenditure levels.

The Balance Sheet figures at 30 June 2024 show an overall net worth of the Council of £1.3 billion. The figures shown include statutory adjustments where these have been made, and where this is not possible the figure as at 31 March 2024 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 June 2024 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 1 and in the absence of Quarter 1 information the latest 2024/25 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:

4.2

<b>Revenue</b>	<b>2024/25 Budget £'000</b>	<b>2024/25 Forecast (Surplus) / Deficit exc. Group £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	0	0	0
HRA	3,161	3,161	0
Common Good	0	330	330

- 4.3 The capital position can be summarised as follows:

<b>Capital</b>	<b>2024/25 Budget £'000</b>	<b>2024/25 Forecast Expenditure £'000</b>	<b>Variance (Under) / Over Budget £'000</b>
General Fund	298,157	296,164	(1,993)
HRA	123,050	123,050	0

- 4.4 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 2024/25 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 2024 £'000</b>	<b>Balance at 30 June 2024 £'000</b>	<b>Movement £'000</b>
General Fund	(94,430)	(175,998)	(81,568)
HRA	(14,190)	(16,337)	(2,147)
Statutory & Other	(50,024)	(49,086)	938
<b>Total</b>	<b>(158,644)</b>	<b>(241,421)</b>	<b>(82,777)</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	Annual external audits are undertaken to review the financial transactions and controls. Ongoing	L	Yes

	and accounting legislation.	internal audits also review specific financial and service data.		
<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. The Capital programmes were reset at the Council Budget meeting on 6 March 2024.	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	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

	Appendix 2 (page 2).			
<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.	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
<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



Assessment	Outcome
<b>Integrated Impact Assessment</b>	It is confirmed by Chief Officer- Finance that no Integrated Impact Assessment is 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 30 June 2024

Appendix 2 – Forecast Financial Position for the year 2024/25

Appendix 3 – Common Good Financial Statement for the period ending 30 June 2024

Appendix 4 – Group Entities Forecast Financial Position for the year 2024/25

## 12. REPORT AUTHOR CONTACT DETAILS

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