

## REPORT TO ABERDEENSHIRE COUNCIL – 26 SEPTEMBER 2019

### QUARTER 1 FINANCIAL PERFORMANCE: REVENUE BUDGET

#### 1. Recommendations

**The Council is recommended to:**

- 1.1 **Consider and agree the financial performance position for revenue expenditure for Quarter 1 to 30 June 2019;**

#### 2. Background / Discussion

- 2.1. The 2019/20 budget was agreed in February 2019 and is a statement in financial terms of the Council's priorities for an agreed scope and standard of service delivery in the current financial year.
- 2.2. Budgeting is a process of expressing the predicted costs and resources for a planned course of action over a specified time period and throughout the financial year, income and expenditure are measured against the budget as a means of reviewing Service performance, controlling expenditure and informing the Medium Term Financial Strategy ( MTFS).
- 2.3. The measurement of the income and expenditure against the budget has previously taken the format of a budget monitoring report showing the annual forecast position compared to the annual budget. Whilst forecasting can be a realistic projection of expenditure and income, in practice however there is a risk that forecasting creates a focus on reducing a predicted over budget position rather than focussing on the management of the actual budget under consideration and therefore the services being delivered.
- 2.4. In the current year the Strategic Leadership Team has linked the in-year financial management of resources to the MTFS by reporting financial performance information, both to budget holders and to Committee, with a movement away from forecasting the year end position, to the reporting of a phased budget versus actual expenditure to date. This is known as variance analysis.
- 2.5. Therefore, the scrutiny of financial performance is being undertaken in detail by Directorate teams and then Policy Committees. The summary position for the Council will continue to be reported here. Policy Committees will scrutinise, challenge and discuss emerging issues highlighted through the financial performance reporting, linking this to service delivery and then agreeing a course of action for the future.
- 2.6. Each Policy Committee has been shown the financial performance information and as a result of their comments, the reporting of information to Committees will continue to develop in discussion with Directors to achieve the most useful format which informs in-year and future year financial and service decisions.

- 2.7. The absence of a specific year end forecast figure is different, and this is recognised. This is because if the Council is forecasting an over budget position at the end of Quarter 1 the conversation about financial management for the rest of the year can be dominated by reducing expenditure and cutting services rather than the management of costs and agreed service delivery consequences. For example, for the last financial year the forecast position reported to Council was:

Reporting Period	Over Budget £m	Within Budget £m	Net Forecast £m
June 2018	£9.126	£6.958	£2.168 (0.39%)
Sept 2018	£9.674	£5.972	£3.702 (0.67%)
Dec 2018	£10.264	£6.454	£3.81 (0.69%)
March 2019	£10.567m	£10.513	£0.054 (0.01%)

The challenge quite correctly was for budget holders to balance their budgets, but this was focused on the Net Forecast figures rather than addressing the main causes of the Net Forecast figures. Strategic Leadership Team recognise that improvements and positive developments can be made to the current approach. This will combine, service expertise, professional advice supported by enhanced timing and data. Therefore, the new approach of managing actual expenditure compared to a profiled budget builds on the Council's already robust financial governance.

- 2.8. During the first quarter of the financial year, the Council has spent £140 million out of a budget of £565 million or 24.8% after three months. At this point last year, the percentage spent was 25.4% and the Council went on to record a year end position £54,000 over budget, therefore the current expenditure is on a similar path to last year. However, several emerging issues have been identified by Directors when the actual expenditure is compared to the year to date budget. These include:

- Staff costs in Education & Children's Services
- Insurance premiums
- School Catering
- Building Repairs & Maintenance
- Health & Social Care

- 2.9. These issues are mentioned today for information as Directors are currently scrutinising their current financial performance information and preparing to report to the Policy Committees in more detail on any emerging issues within their Service. In addition, the Year to Date budgets are being refined to ensure that they correctly reflect the profile of Service delivery.

- 2.10. Since the Council's revenue budget was agreed in February 2019, additional funds for the teacher's pay award have been confirmed by the Scottish Government. These funds are to be distributed to the Education & Children's Service after discussion with the Director and also reported to the Education & Children's Services Committee.

### **3. Medium Term Financial Strategy (MTFS)**

- 3.1. The monitoring of expenditure and income and associated variances is integral to supporting robust management across the Council; and is part of a programme of continuous improvement which will help inform the MTFS. Its purpose is to raise issues which need to be controlled, discussed or amended through further management action or to highlight significant changes to the underlying assumptions made when developing the budget.
- 3.2. Variance analysis is a useful discipline which allows budget holders to evaluate performance against the agreed budget by encouraging investigation and understanding of the underlying causes of variances which will then inform decisions on the remedial action required, and in turn future budget considerations.
- 3.3. There will always be variances between budgeted and actual expenditure, regardless of how carefully the budget is prepared. The important point is to find out why the variances have occurred, to take any necessary corrective action in a timely manner and to consider whether budget revisions are required for inclusion in the Medium Term Financial Strategy process.
- 3.4. The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

### **4. Revenue Budget Performance Monitoring**

- 4.1 The revenue budget for Aberdeenshire Council, as agreed on 14 February 2019, is £565,602,000.
- 4.2 Appendix 1 shows the position at 30<sup>th</sup> June 2019 for the Council as 24.8% spent after quarter 1 which is in line with last year's position. A more detailed analysis of these figures will be presented to each Policy Committee for their respective scrutiny. The new format will allow figures and trends to be shown in a way to help facilitate discussion and provide better information for decision making. As this is the first year using this method, information is being built up in the format required to allow accurate yearly comparisons and analysis.

### **5. Scheme of Governance**

- 5.1 The Council is able to consider and take a decision on this item in terms of the general powers conferred by Section A of the List of Committee Powers in Part 2A of the Scheme of Governance. In particular, Section A.8.2 applies in relation to the virements as they relate to the incurring of revenue expenditure not provided for in the Revenue Budget.

### **6. Implications and Risk**

- 6.1 An equality impact assessment is not required because the report deals with the monitoring of expenditure against budgets which have been approved previously and does not have a differential impact on any of the protected characteristics.

- 6.2 Any staffing and financial implications that arise will be discussed and scrutinised by the relevant Policy Committee.
- 6.3 The following Risk has been identified as relevant to this matter on a Corporate Level: Budget Pressures ([Corporate Risk Register](#)). The following Risk has been identified as relevant to this matter on a Strategic Level: Balancing the Books ([Directorate Risk Registers](#)). Actions taken to mitigate these risks are set out in the report.
- 6.4 A Town Centre First Impact Assessment is not required because the report deals with the monitoring of expenditure against budgets which have been approved previously and does not have a differential impact on any of the protected characteristics.

**Ritchie Johnson**  
**Director of Business Services**

Report prepared by Alan Wood, Head of Finance  
13<sup>th</sup> September 2019



Service	Revised Base Budget	YTD Budget	Actual	Variance YTD Budget Less Actuals
Business Services	38,838,000	14,907,131	17,221,053	-2,313,922
Capital Financing	26,424,000	26,424,000	610,396	25,813,604
Contribution to IJB	109,677,000	25,742,899	22,174,194	3,568,705
Education & Children's Services	318,527,000	86,615,992	88,805,529	-2,189,537
Infrastructure Services	72,136,000	19,972,389	11,341,504	8,630,885
<b>Total</b>	<b>565,602,000</b>	<b>173,662,411</b>	<b>140,152,676</b>	<b>33,509,735</b>

Committee	Revised Base Budget	YTD Budget	Actual	Variance YTD Budget Less Actuals
Business Services	37,740,000	14,632,628	17,015,212	-2,382,584
Capital Financing Charges, IORB and CFCR	26,424,000	26,424,000	610,396	25,813,604
Communities	126,842,000	30,860,265	27,505,854	3,354,411
Education and Children's Services	307,746,000	83,247,179	84,729,285	-1,482,106
HRA	0	643,900	-3,852,020	4,495,920
Infrastructure Services	66,850,000	17,854,439	14,143,949	3,710,490
<b>Total</b>	<b>565,602,000</b>	<b>173,662,411</b>	<b>140,152,676</b>	<b>33,509,735</b>

Type of Spend	Revised Base Budget	YTD Budget	Actual	Variance YTD Budget Less Actuals
01.Staff Costs	395,752,505	99,593,554	102,273,051	-2,679,498
02.Premises Costs	73,398,143	26,538,011	24,619,941	1,918,070
03.Transport	44,102,985	11,014,224	8,501,366	2,512,858
04.Supplies & Services	148,003,269	58,382,137	27,467,486	30,914,651
05.Third Parties	178,952,044	41,668,452	37,298,478	4,369,974
06.Central	2,820,996	705,249		705,249
08.Financing Costs	8,416,000	2,103,900	585,194	1,518,706
09.Grants	-80,868,694	-19,786,594	-19,291,845	-494,749
10.Income	-224,242,248	-51,210,722	-41,277,478	-9,933,244
11.Other	-1,200,000	-300,000	25,251	-325,251
12.Capital	20,467,000	4,954,200	-83,978	5,038,178
<b>Total</b>	<b>565,602,000</b>	<b>173,662,411</b>	<b>140,152,676</b>	<b>33,509,735</b>

Revised Base Budget and Actual by Type of Spend



