

UPDATED REPORT

REPORT TO ABERDEENSHIRE COUNCIL – 25 JUNE 2020

MEDIUM TERM FINANCIAL STRATEGY: FINANCIAL UPDATE

1. Reason for Report / Summary

- 1.1 This report provides updated information relating to the Council's financial position for the current year as a result of events arising from the COVID-19 pandemic.

2. Recommendations

The Council is recommended to:

- 2.1 Consider the updated position regarding the elements within the Council's Medium Term Financial Strategy (MTFS);**
- 2.2 Agree the proposed approach to develop a revised MTFS;**
- 2.3 Agree that this work is integral to the transition from response to recovery exercise.**
- 2.4 Receive regular financial updates to Council.**

3. Purpose and Decision-Making Route

- 3.1 The impact on the Council's financial position as a result of the current operating conditions necessitates bringing this report before the full Council whilst still in the first quarter of the financial year. At the meeting of the full Council in April the negative impact on the Council's financial resources was outlined and a further report was requested to set out a plan for dealing with the situation.
- 3.2 This paper sets out the plan to enable the Council to transition from the current MTFS to a new MTFS. It is proposed that the new MTFS is part of the Council's preparations towards the Recovery phase of operations and therefore any necessary decision making will follow the Council's agreed delegations in terms of the Scheme of Governance.

4. Discussion

- 4.1 The detrimental impact on the Council's financial position since the MTFS was agreed on 18 March 2020 has been unparalleled resulting in a situation which can be classed as a financial crisis. This term is not used lightly and must be seen in the context of the current circumstances.

- 4.2 There is a fundamental need now to prepare a revised MTFS specifically in response to the circumstances created as a result of the COVID-19 pandemic. This is classed as a financial crisis because:
- Quarter 1 is predicting an £8.5 million loss in income and increased costs across the MTFS which may result in an annual position in excess of £30 million
 - As this is anticipated to be a sustained position it will likely take more than one financial year to resolve
 - Without action this would require the use of 70% of Council reserves
- 4.3 The following dates and communication of information demonstrate the pace at which events have moved:
- 18 March 2020: Council agree a MTFS including a £605 million revenue budget.
 - 24 April 2020: a first quarter deficit predicted at £8.5 million
 - 30 April 2020: Full Council advised of the serious nature of the current financial position
 - 15 May 2020: the first quarter deficit remains at £8.5 million
 - Weekly updates to Strategic Leadership Team and Councillors
- 4.4 It is important to fully set out the context surrounding the current and predicted financial position. From the beginning of April, the financial impact on the Council has been measured and reported to Strategic Leadership Team on a weekly basis and then to Councillors. This has evolved and includes cash, expenditure, funding and a comparison to budget.
- 4.5 Strategic Leadership Team has reviewed the financial data on a weekly basis and has reacted to the situation by:
- communicating messages through Directors to teams on the financial position
 - consulting with all senior managers on the proposed approach to establishing a new MTFS
 - instructing essential spend only
 - challenging current recruitment practices
 - reviewing all contracts within the Council
 - reviewing Business Rates liabilities
 - this has resulted in reduced spending now evident in creditor payments
 - reduced spending on travel, energy and recruitment
- 4.6 The Council has maintained a positive cash position this financial year through the following measures:
- Revenue Support Grant: The Scottish Government have reprofiled the Grant by increasing payments in May, June and July and will then recoup this money in January – March 2021. For May the increase is £6.492 million, June = £4.238 m and July = £2.165 m.
 - Revenue Support Grant: The receipt of Business Grants funding of £47 million for eligible local businesses has aided cashflow as at the end of May £35 million was paid out, meaning a balance of £12 million was currently with the Council as at the end of May.

- Treasury Management: temporary and longer term loans of £80 million have been repaid whilst £72 million of new temporary and longer term loans have been secured, resulting in a net £8 million of loan repayments to the end of May.
- The overall cash position to the end of May was a positive balance of £15.3 million.

This report concentrates on the position to the end of May but it is relevant to advise that an additional £7.452 million will be received this month in 4 weekly instalments from the 3 June as the Council's share of £155 million of Scottish Government funding. Therefore, in cash terms, quarter1 of the financial year will see a positive cash position for the Council for the reasons outlined.

- 4.7 In terms of the Council's budgeted position for the current year this is a more complex comparison but no less important than the cash position. The Council set a balanced revenue budget of £605 million for this financial year. The phased budget, or the planned income and expenditure budgets for the first two months of the year expect a surplus position of income over expenditure of £10.7 million mainly due to a constant income stream compared to a low early spending pattern. However, the actual figures for the first two months in the year show a £4.3 million surplus, which is £6.4 million lower than the phased budget as shown in Appendix 1. Extending this position to the end of the first quarter supports the £8.5 million deficit for the MTFS.
- 4.8 The extrapolation of the £8.5 million first quarter figure over the remainder of the financial year could result in a deficit of over £30 million if the current situation persists and no action is taken. Whilst a combination of these events is unlikely, there are a number of scenarios that could be prepared to vary that figure. As a result, £30 million is a potential annual scenario indicating the scale of the challenge but by splitting the year into quarters and reporting more frequently based on actual data, professional judgement and actions taken a more robust figure will result. Council are asked to see these figures as an indication of scale and note that actual monthly data and a quarterly predicted position will now be the focus.
- 4.9 One reason for proposing a quarterly predicted position is to capture as accurately as possible the financial impact of delivering and indeed stopping services during an emergency situation. These actions will cost money but do not necessarily carry a guarantee of additional funding. This could include, the reopening of schools, use of transport and the continued closure of leisure facilities. This creates risk and liability for the Council therefore officers will be trying to clarify and reduce this as far as possible. More frequent reporting will be more accurate and will influence the decision making around varying the current service delivery position.
- 4.10 A further aspect of the context referred to is to note the scale and likely duration of the financial position i.e. this is not a liquidity issue or a single event issue but an issue for at least this financial year and likely future years too.
- 4.11 However, the Council approaches this from a position of strength. This position is key as the Council has a positive track record of delivering sustainable services but also understands that in times of crisis it is important

to react and scale back or stop service delivery. This has been demonstrated by the fact that key parts of the current MTFS were stopped overnight: Live Life Aberdeenshire and the majority of school services, whilst another key part of the MTFS expanded overnight: The Health & Social Care Partnership. In addition to this, hundreds of colleagues were redeployed to deliver other services with office based staff now working from home on a secure and stable digital platform.

- 4.12 Aberdeenshire Council has a history of financial stability, security and certainty. The sound financial governance and sustainable service delivery has served the Council well developing into the Council's Medium Term Financial Strategy based upon the 11 Council Priorities.
- 4.13 Aberdeenshire Council also has a history of working with its communities and this is particularly true during the pandemic. Once again local communities have stepped forward and stepped up to support each other in a variety of ways, sometimes with support from the Council but often on their own through shopping, medicine delivery, contact between neighbours, organising transport and much more. Therefore, the link into the Recovery work is key as the financial work is by no means the only consideration as links with all stakeholders should be maintained and strengthened.
- 4.14 The MTFS has enabled the Council to navigate through tight financial periods in recent years by understanding the connection between the revenue budget and the capital plan, the necessity for creating and discharging reserves for specific prioritised purposes, and fundamentally, the importance of consulting with residents and tenants ahead of setting a budget and rent levels.
- 4.15 All this experience and professionalism will be needed to transition the Council from the agreed MTFS to a new MTFS.
- 4.16 Updated MTFS position at Quarter 1
Revenue Budget: two returns have been submitted to COSLA by each Local Authority during the first Quarter of the financial year setting out a predicted position from mid-March to the end of June 2020. Aberdeenshire has returned a consistent deficit position compared to budget at £8.5 million across the revenue budgets of the General Fund and the Housing Revenue Account (HRA).
- 4.17 Capital Plan: The Council set a General Fund Capital Plan in March with 70 projects and a budget of some £150 million for the current financial year. 48 of these projects have been suspended or not yet started reflecting the immediate action that was taken as a result of the COVID-19 pandemic resulting in a significant impact on the progress and deliverability of works within the current year. All decisions including the financial risks are being reviewed in light of current guidance on construction and major projects. A similar position is in place across the HRA with a £61 million Capital Plan over four workstreams largely on hold. To date £5.5 million has been spent from an expected phased budget of £35 million. The Capital Plan Group has established a review process for the Capital Plan and will incorporate the approach in this report as well as the reporting arrangements.

- 4.18 Reserves: The unaudited annual accounts for 2019/20 currently stated a total reserve position of £46 million. Included in this figure is the General Fund Working Balance of £9 million. This balance has been preserved for a number of years as a reserve for emergencies or of last resort. It is specifically at times like this that attention correctly focuses on reserves, as the need to be financially flexible, to react out with the agreed budgets and to bridge financial years are important fiscal tools available to the Council.
- 4.19 Proposed approach to develop a new MTFS
Aberdeenshire Council's MTFS must now be the vehicle which we use to respond during a period when the Council will face unprecedented financial changes. Following the proposed plan to a new MTFS will enable financial resources to be prioritised, allocated and managed and therefore support the future delivery of services as well as the effective planning, restructuring and delivery of a balanced budget.
- 4.20 The proposal before Council is a plan that transitions the Council from the agreed current MTFS to a new MTFS. The starting point is the closedown of the 2019/20 accounts as this will determine the total reserves available in the current financial year. This in turn will influence the next financial year: therefore, we are initially considering three financial years.
- 4.21 Alongside the restructuring proposal is the potential additional support from the Scottish Government. At present no additional support has been assumed, but it is certainly being asked for across the Council activities including the Health & Social Care Partnership. This position creates further risk and potential liability for the Council and therefore we must look to minimise and mitigate this position as far as possible. The discussion around potential support includes:
- Additional cash support to fully cover the exceptional costs and lost income directly arising from the COVID-19 pandemic
 - Relaxing the rules on borrowing to allow Councils to borrow for revenue costs rather than capital costs
 - A review of debt including the writing off of debt or indeed a debt repayment holiday. For example, Aberdeenshire Council has budgeted £34.697 million for debt repayments this year.
- 4.22 A key part of the plan to transition to a new MTFS is for Directors to review their service delivery arrangements by assessing the scope and standard of current service. Through this assessment a decision will be made regarding the need to restructure a business model. In this context a business model is a budget page eg School Catering, Roads Maintenance or Finance. This is a significant undertaking but a necessary one to deliver an appropriate level of service throughout the period of unparalleled change. The proposal is not to start a budget or MTFS process from scratch, instead Directors will review and then determine if a restructuring of the current business model is required to adapt to the current circumstances and in turn, if required further adapt to future circumstances i.e. an adaptive budgeting approach.
- 4.23 A restructured business model will be influenced by providing an evidenced based financial framework, beginning with actual expenditure and actual income figures from the first Quarter of the financial year. This will enable

budget holders to challenge, support and stimulate different models of service delivery. These models will be discussed by Directorate Teams and then Strategic Leadership Team ahead of consideration by Council. Ultimately the intention is that this approach will lead back to financial stability and the continued delivery of the Council's strategic priorities. It is recognised that Council may wish to review its priorities in the circumstance and if so, the work towards a new MTFS will be adapted accordingly.

- 4.24 There will be a strong dependency on Services to manage this new process and review the current service delivery arrangements. It is not expected that each element of the Council requires to be restructured however it is expected that all activities are reviewed. The extent of these reviews and the need to restructure will be determined by each Director or Head of Service. These determinations will then be progressed for consideration to the Adaptive Services Board which is set up to provide more capacity to Strategic Leadership Team (SLT). SLT will make decisions on the recommendations and may commission work and reviews to be carried out. SLT will then consult with the Recovery Reference Group (RRG) where required, putting decisions on matters of policy to the relevant Committee where required, resulting in an updated MTFS for Full Council to consider and agree.
- 4.25 This is not just a change in terminology but a change in approach necessitated because of the material changes in income, expenditure, achievement of savings and the ability or otherwise to mitigate pressures as agreed at Council on 18th March 2020.
- 4.26 The objectives of the new MTFS are to:
- Ensure the Council's short, medium and long term financial health is sound and sustainable
 - Provide financial parameters within which service and financial planning coexist
 - Produce financial performance data to enable the alignment of services, outcomes and priorities
- 4.27 As the Council transitions through the response phase to recovery the formation of a new MTFS is key. One of the essential foundations to achieve this is the setting of a 20 month balanced budget up to March 2022. By acknowledging that we may not have balanced annual budgets for a specific financial year is a significant shift away from current practice but the longer term approach is seen as responsible and practical in the current environment. In addition, a range of other measures may be deployed and subject to review, including:
- Plan to use reserves including the General Fund Working Balance and receive advice on the level of reserves to hold. This may include using reserves to bridge between financial years.
 - Actively use proactive Treasury Management to smooth cash flows over the next 20 months.
 - Review the Capital Plan recognising the important balance between providing a stimulus to the Aberdeenshire economy and the financial implications of delivering such a Plan.

- Review the Housing Revenue Account but recognising its status as being separately funded from the General Fund Revenue budget but still a part of the MTFS.
- Review the Carbon Budget as service changes will have an impact on this budget.
- Clearly identify the service implications of short term decisions, interim changes and permanent measures
- Not all services require restructured but all services will be reviewed, and all resulting decisions will be deliverable and costed.
- Recognise and support the officer actions now being taken to restrict expenditure to essential spend only
- Consult further with both Internal Audit and External Audit
- Changes to the agreed MTFS from the March Council meeting will consider and report on equalities
- The new MTFS will integrate into the COVID-19 Recovery work discussed at Council on 10 June 2020.

4.28 It is important to include the Health & Social Care Partnership (H&SCP) in the development of a new MTFS not only because a significant part of the Council's budget is allocated to the H&SCP but also because the services provided through the H&SCP integrate across Council services. As the H&SCP have their own MTFS, close dialogue will continue with the Chief Officer, Chief Financial Officer and the Integration Joint Board to ensure full awareness, contribution and participation in this plan towards a new MTFS.

4.29 If the approach is agreed today a detailed workplan will be produced and start immediately building on the actions already taken by Strategic Leadership Team. The first iteration of a restructured business model enabling a revised MTFS to be considered will be ready by the end of July 2020.

4.30 Council should be aware that any change to the budget agreed in March would be in accordance with Standing Order 7.2 of Part 1 of the Scheme of Governance. In terms of Standing Order 7.2, "No motion which seeks to alter or revoke a previous decision of Full Council or a Committee or has that effect will be considered within a period of 6 months of the original decision, unless... (b) It is detailed in the terms of a report submitted to the Council or Committee by an officer that the previous decision can no longer be implemented or its effect has been substantially altered by subsequent circumstances and the Monitoring Officer or their representative agrees that this is the case."

4.31 In this particular case the Monitoring Officer agrees that the effect of the agreed budget has been substantially altered by subsequent circumstances and accordingly can be revisited within the 6 month period.

5. Council Priorities, Implications and Risk

5.1 This report helps deliver all Council Priorities but particularly: Council Priority 9 – Deliver responsible, long-term financing.

5.2 The table below shows whether risks and implications apply if the recommendation is agreed.

Subject	Yes	No	N/A
Financial		X	
Staffing		X	
Equalities		X	
Fairer Scotland Duty		X	
Town Centre First		X	
Sustainability		X	
Children and Young People's Rights and Wellbeing		X	

- 5.3 An Equalities Impact Assessment is not required because all the elements of the Medium Term Financial Strategy referenced have their own Equality Impact Assessments where appropriate.
- 5.4 There are no staffing or financial implications arising directly from this report.
- 5.5 The following Risk has been identified as relevant to this matter on a Strategic Level: Balancing the Books ([Directorate Risk Registers](#)).

6. Scheme of Governance

- 6.1 The Monitoring Officer within Business Services has been consulted in the preparation of this report and is satisfied that the report complies with the Scheme of Governance and relevant legislation.
- 6.2 The Council is able to consider and take a decision on this item in terms of the general provisions conferred by the [List of Committee Powers in Part 2A](#) of the Scheme of Governance. A decision on this item is linked to the approval of the annual estimates and setting the Council Budgets contained within Section A.8.1 of the List of Committee Powers in Part 2A of the Scheme of Governance.

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Prepared by Alan Wood, Head of Finance
Date 23 June 2020

Appendix 1

Aberdeenshire Council Revenue Budget 2020/21	Base Budget 2020/21 £000's	Phased Budget to May 20 £000's	Actual to May-20 £000's	Variance May-20 £000's
Expenditure by Committee				
Business Services	37,578	8,955	48,853	39,898
Communities	135,292	22,224	22,390	166
Education & Childrens Services	339,823	53,800	57,973	4,173
Infrastructure Services	62,341	14,900	11,966	(2,934)
Transfer to Reserves	700	0	0	0
Community Resilience Fund	200	200	0	(200)
Capital Financing Charges	31,340	(1,880)	(1,880)	0
Procurement Efficiencies	(1,800)	0	0	0
	<u>605,474</u>	<u>98,199</u>	<u>139,302</u>	<u>41,103</u>
Income				
Revenue Support Grant	(377,317)	(65,716)	(101,893)	(36,177)
Business Rates	(80,112)	(13,602)	(12,594)	1,008
Council Tax	(148,045)	(29,613)	(29,112)	501
	<u>(605,474)</u>	<u>(108,931)</u>	<u>(143,599)</u>	<u>(34,668)</u>
Net Position	<u><u>0</u></u>	<u><u>(10,732)</u></u>	<u><u>(4,297)</u></u>	<u><u>6,435</u></u>