

## Appendix A

### Business Services Financial Performance 2023/24

#### 1. Introduction

- 1.1 Council approved the 2023/24 Revenue and Capital budgets on 9 March 2023 as part of agreeing the wider Medium Term Financial Strategy (MTFS). The MTFS supports the delivery of the Council Plan and associated priorities by setting out the framework within which resources are available over the medium term and the financial challenges facing the Council, in doing so, it incorporates all revenue and capital funding and use of reserves.
- 1.2 The purpose of this report is to provide Business Services Committee with an update of the financial performance for the services for which it has responsibility, to highlight recognised pressures which are impacting on these budgets and provide updates on how the Service is managing pressures overall, including identifying possible use of Reserves.

#### 2. Forecast Revenue Position 2023/24

- 2.1 The revenue budget for Business Services Committee was developed through consultation with services and members to identify the resources required to deliver on the Council's priorities. As set out in **Table 1**, the original total revenue budget for 2023/24 was **£49.429m**, rising to **£50.865m** due to the draw down from reserves and application of budget virements. The Service is projecting to be **£0.700m under budget** at the end of the financial year.

**Table 1: Revenue Position to 30 November 2023**

<b>Budget Page</b>	<b>Original Budget 2023/24 £000</b>	<b>Revised Budget 2023/24 £000</b>	<b>Actual to 30 Nov 2023 £000</b>	<b>Forecast 2023/24 £000</b>	<b>Forecast Under/ (over) Budget £000</b>
74.Chief Executive	321	335	227	335	-
75.Councillors' Remuneration & Expenses	2,268	2,265	1,507	2,265	-
76.Business Services Directorate	1,254	1,240	974	1,340	(100)
77.Finance	14,382	15,041	11,065	14,041	1,000
78.Internal Audit	444	444	446	414	30
79.Customer & Digital	13,316	13,695	10,010	13,445	250
80.Legal & People	7,689	7,745	5,252	7,705	40
81.Miscellaneous Licensing	(64)	(64)	(48)	11	(75)
82.Grampian Valuation Joint Board	2,209	2,209	1,624	2,034	175
83.Printing	715	715	301	600	115
84.Procurement	905	891	409	1,011	(120)
85.Woodhill House	1,752	1,720	1,249	1,700	20
86.Office Accommodation	1,974	1,904	1,356	1,904	-
87.Building Cleaning	-	-	-	-	-
88.Public Conveniences	658	648	362	563	85
89.Operational Buildings	-	-	-	-	-
90.Estates	(2,897)	(2,809)	(2,384)	(2,409)	(400)
91.Property Construction Services	(1,514)	(1,515)	503	(1,215)	(300)
92.Building Repairs & Maintenance Fund	9,385	8,985	4,445	9,005	(20)
93.Area Managers – Buchan & Formartine	848	866	530	866	-
94.Charges to HRA	(3,450)	(3,450)	(2,292)	(3,450)	-
95.Procurement Efficiencies – Business Services Committee	(766)	-	-	-	-
<b>Total Business Services Committee</b>	<b>49,429</b>	<b>50,865</b>	<b>35,536</b>	<b>50,165</b>	<b>700</b>

## 2.2 Business Services Directorate - £100,000 over budget

Business Services Directorate is forecast to be over budget by £100,000. This is due to one-off voluntary severance costs of £150,000. The service is currently projecting to be under budget on staffing by £50,000 through vacancies, taking the net forecast position to £100,000 over budget. At present service delivery is not being impacted by the vacancies.

## 2.3 Finance - £1,000,000 under budget

In the 2023/24 fiscal year, the Scottish Government allocated funding to empower Local Authorities to decide on Business Rates relief measures for vacant properties, £2.881 million to Aberdeenshire. The estimated cost for offering relief and exemptions to empty properties in Aberdeenshire is around £2.4 million. However, this figure is subject to change as property occupancy fluctuates throughout the year. Currently, there is an under-budget position due to lower-than-expected expenses for property relief, amounting to approximately £481,000, however this will change as the year progresses.

Current levels of demand for Housing Benefit expenditure are showing a projected underspend of £255,000. Corresponding Housing Benefit Subsidy income projections based on subsidy trend patterns in previous years and the Mid-Year Estimate return are showing to be over budget by £290,000. Housing Benefit is demand led therefore these figures could fluctuate as we progress through the financial year.

Grant income levels are showing to be around £150,000 less than budget. Income previously received for administration of the Scottish Welfare Fund is no longer receivable into Finance and instead is included in the overall Revenue Support Grant budget. In previous years other one-off funding was offsetting this reduction but the one-off funding is not expected to be as high this financial year.

Additionally, Finance has a number of unfilled vacancies and is expected to be £300,000 under budget for staffing if current staffing levels persist.

External Audit Fees are determined on a national level. As part of the budget planning for 2023/24, the Finance Service agreed to investigate options for mitigating the pressure arising from the increased fees during the 2023/24 Financial Year. This will be pursued by identifying efficiencies within the broader Finance Service. The current over budget position for this area of expenditure is £50,000. This may rise due to additional work the Auditors have undertaken on valuations of Council properties. Finance is currently in discussion with the Auditors on an agreed amount. An update will be provided in the next financial performance report.

Bad Debts incurred throughout the financial year are charged against the Provision for Bad Debts. The provision balance is reviewed at the end of the financial year and replenished to the agreed level. Based on Bad Debts arising from Housing Benefit last year the amount to be replenished was £45,000. An assumption has been included for the same level to be replenished this financial year which will create a budget pressure.

Software costs are anticipated to be £40,000 over budget. This includes new software expenditure required to satisfy new accounting requirements.

Printing costs are forecast to be £25,000 over budget due to a higher number of bills being issued together with an increase in recovery notices as debts increase. The service would anticipate this reducing in future years as more self-service is implemented.

The net budget position for Finance is £1m under budget.

## 2.4 Customer & Digital - £250,000 under budget

Customer & Digital is forecasting to be £150,000 over budget on supplies and services due to rising Microsoft costs and number of licences for the organisation. Work is ongoing with other Services to try to reduce costs without adversely impacting Service delivery. Budgets for Customer and Digital are being closely managed to ensure there is no overspend on the Service at the end of the financial year. Staffing is forecast to be under budget by £400,000 based on current levels and vacancies to be filled. This is likely to fluctuate throughout the year depending on any new vacancies arising.

## 2.5 Printing - £115,000 under budget

In accordance with the current contract, printing contract costs have reduced in 2023/24. The new printing contract is currently going through the tender process, for implementation from 1 April 2024. There may be some set up costs to be incurred ahead of this, therefore the underspend may reduce to accommodate these costs.

## 2.6 Procurement £120,000 over budget

The Service has insufficient budget to cover contract costs. This has been a historic issue for a number of years which has in the past been offset by rebates receivable from suppliers. The pressure is being addressed as part of the 2024/25 budget work.

## 2.7 Estates £400,000 over budget

Expenditure budgets are projecting to be overspent by £670,000. This is largely due to dilapidations payments due when exiting premises, demand-led repairs and maintenance costs and property fees associated with asset management and other works. The projected overspend also includes an assumption that £140,000 of the £250,000 estate rationalisation saving included in the budget for 2023/24 will not be delivered until next financial year. Delivery of the savings is dependent on properties going through formal title checks, and reporting to Committees if capital receipts are above the £100,000 threshold, prior to finalising sales.

Conversely, income levels have seen an increase this financial year due to a large dilapidation settlement being recovered from a previous tenant. Income is expected to be £270,000 over budget.

## 2.8 Property Construction Services £300,000 over budget

Income from property fees is expected to be £700,000 under budget this year with the income target not being achievable as it was set too high. This has

been factored into the budget for 2024/25. The 2023/24 pressure has been offset in part by reductions in staffing, with an under-budget position of £400,000 expected.

- 2.9 Whilst Business Services is currently projecting to be underspent at the end of the financial year, the position may fluctuate and as such the Service continues working to manage resources in terms of people and ancillary costs.

### 3. The Risks

- 3.1 As set out in the [Medium Term Financial Strategy](#) the Council is facing unprecedented financial challenges due to events out with our control, all of which have contributed to rising inflation and interest rates, volatility in our supply chains and the Cost of Living crisis. Rising costs, increased demand for local services and reducing real term financial settlements from Scottish Government has created a challenging operating environment for 2023/24.
- 3.2 To respond to these challenges, the budget agreed by Council included significant assumptions and acceptance of risk to enable a balanced position, as well as agreement of a range of savings and efficiencies.
- 3.3 Budget risks refer to potential threats or uncertainties that could impact on the Council's ability to meet its objectives within the constraints of the budget. Should some or all these risks materialise during the year, they may create a budgetary pressure which will require to be addressed, either through efficiencies elsewhere within the Service or the Council, a policy change or the use of reserves.
- 3.4 The budget risks relating to the services within Business Services Committee are set out in [Appendix A1](#).
- 3.5 Local Government Pay Awards continue to be a significant risk to the Council's budget as a whole. Scottish Government have provided funding of £155m towards a revised pay offer, of which Aberdeenshire Council anticipate receiving £7.088m. £4.6m of this funding was assumed in the budget setting process and was transferred to an earmarked reserve. Once received, the balance of this will be transferred to the reserve pending payment to staff. In September 2023 the Scottish Government identified a further £80m to fund an improved offer, with Councils contributing an additional £10m. This offer consisted of a two stage uplift to pay from April 2023 and January 2024.
- 3.6 In November 2023, Leaders agreed to a further enhancement, which sees the full offer back dated to April 2023 at an additional cost to Aberdeenshire of around £0.691m (£0.509m General Fund, £0.132m IJB and £0.05m HRA). The first stage of the pay award has been paid to employees through the November

salaries. The second stage of the pay award (the November enhancement) will be paid in the January salaries. Once the pay award has been fully paid to staff, any unfunded element will require to be funded from the Councils reserves in 2023/24. Councils will be reimbursed for this in the LG Finance Settlement for 2024/25 although the exact arrangements for this reimbursement are still to be confirmed.

3.7 Future financial performance reports will provide further updates on the management of these risks and any envisaged impacts and mitigations.

## 4. Savings

4.1 Savings of **£2.077m** were agreed by Council in relation to services under Business Services Committee. **Appendix A2** sets out the details of these savings and the progress being made against them.

4.2 £0.766m of savings relate to procurement efficiencies which will result from a reduction in off contract expenditure, the Directorate are working with the Procurement Service to achieve these efficiencies.

4.3 A saving of £0.2m was agreed in relation to Vacancy Management which means that when vacancies arise, they may not be filled. Services will consider operational efficiencies and changes to service delivery and only recruit where necessary. Staff costs to date indicate that this saving is on target to being achieved.

4.4 At present, the estate rationalisation saving of £250,000 is not likely to be fully achieved in 2023/24, with £140,000 expected to be delayed until 2024/25. This is being mitigated by the wider underspend within Business Services. All other savings have been achieved or remain on track to be achieved. These savings will be managed throughout the year and should they show indications of being delayed or unachievable, this will be highlighted to Committee with the options to mitigate against any resultant pressure.

4.5 Corporate savings of £2m were also agreed in relation to Voluntary Severance. Savings in relation to staff leaving the organisation under this scheme were to be removed from the relevant budgets throughout the year as they were identified. This savings goal will not be achieved this financial year. As a result, services are actively seeking alternative means to realise these savings from within other budgets.

## 5 Reserves

5.1 Reserves are an important resource for the Council and the level, purpose and planned use of these reserves was set out in the Medium-Term Financial

Strategy. **Appendix A3** details the Earmarked Reserves which specifically relate to the services which fall under Business Services Committee. These are summarised in Table 2 below:

**Table 2: Reserves to 30 November 2023**

	Balance at 1 April 2023 £000	Balance at 30 Nov 2023 £000
<b>Revenue Earmarked Reserves</b>		
Local Authority Continued Economic Recovery Fund (LACER)	372	372
Repairs & Maintenance Fund	500	500
Digital Strategy Reserve	1,493	1,117
<b>Total Revenue Earmarked Reserves</b>	<b>2,365</b>	<b>1,989</b>

5.2 It should be noted that the balances available in reserves are provisional and may be subject to change until the annual accounts for 2022/23 have been reviewed by External Audit. Any changes will be reflected in future financial performance monitoring reports together with updates on the use of these reserves throughout 2023/24.

## 6 Capital

6.1 The Capital Plan forms part of the Medium-Term Financial Strategy and reflects the Council's capital priorities. The capital projects identified in the 2023/24 budget were agreed as part of the Council's Capital Plan on 9 March 2023 and those that specifically relate to Business Services Committee are detailed in **Appendix A4** and summarised in **Table 3**:

**Table 3: Capital Plan Forecast vs Revised Budget 2023/24**

	Revised Budget 2023/24 £000	Actual to 30 Nov 2023 £000	Forecast at 30 Nov 2023 £000	Under/ (over) budget £000
General Capital Expenditure	19,283	4,107	12,910	6,373
<b>Total Capital Expenditure</b>	<b>19,283</b>	<b>4,107</b>	<b>12,910</b>	<b>6,373</b>

6.2 The Capital Plan for Business Services Committee is forecast to be under budget by **£6.373m**. The major variances are detailed below:

### New Council Office (previously on Plan as Workspace – Inverurie)

The forecast for the Ellon Offices and the refurbishment of the 2<sup>nd</sup> floor of Woodhill House now reflects the new start onsite dates for the main contractors,

resulting in an underbudget position of £4.479m. The remainder of the expenditure for these projects will occur in 2024/25.

### Depots

The underspend of £0.697m is due to site start dates being pushed back to 1 April 2024 due to scope changing following a review of client requirements.

### Development of Industrial Portfolio

The underspend of £0.892m is due to site start dates being pushed back to 1 April 2024 due to the scope changing following a review of client requirements.

### Carbon Reduction – Council Wide Objectives

Works under the Non-Domestic Energy Efficiency (NDEE) Framework, at a number of sites, were initially expected to be completed in 2023/24. Due to delays resulting from a number of factors including availability of parts, site access and asbestos surveys, this project will now be completed in 2024/25. This will result in an underbudget position of £0.289m.

6.3 Whilst the general services capital plan for 2023/24 was presented in detail on 9 March 2023, a detailed review of the Capital Plan is being undertaken during 2023/24 to allow a comprehensive, affordable, and deliverable Capital Plan to be developed for the financial years 2024 to 2028.

6.4 The level of borrowing required to support the capital investments presents an ongoing challenge to the Council's financial sustainability. The repayment of borrowing used to fund capital expenditure incurred today, creates a future revenue budget commitment over the entirety of the anticipated life span of the new asset.

## 7. Treasury Management

7.1 Since our Mid Term report at 30th September 2023 the Bank Rate has remained at 5.25%. Market Forecasters believe this to be the peak of the rate rise cycle with many speculating that the next movement may be a cut in June 2024. The Bank of England continue to state that although inflation has started to fall it will not reach its target rate until late 2025. If inflationary pressures persist over that timeframe they will act accordingly.

An opportunity arose in late November to secure some longer term borrowing from the Public Works Loan Board to replace some of our maturing debt and meet our borrowing requirements as follows:

£5M	6 years	4.82%
£10M	7 years	4.82%
£5M	8 years	4.85%
£10M	9 years	4.90%



In Early October one of our Market Debt providers exercised their option to request a rate increase from 4.40% to 6.40%. The provider had indicated prior to this that they were looking to exit from these products. We decided therefore to use our option to repay the lender with no breakage costs. This avoided being locked in with additional revenue costs for a further 43 years and look to replace when rates are more favourable.

Investment Income at the end of November is now £0.988m