

Appendix A

Business Services Financial Performance 2023/24

Report to: Business Services Committee

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 **£50.930m** due to the draw down from reserves and application of budget virements. The Service is projecting to be **£0.930m under budget** at the end of the financial year. This is an improving movement of £0.230m since the last update provided to Committee on 30 November 2023.

Table 1: Revenue Position to 31 December 2023

Budget Page	Original Budget 2023/24 £000	Revised Budget 2023/24 £000	Actual to 31 Dec 2023 £000	Forecast 2023/24 £000	Forecast Under/ (over) Budget £000
74.Chief Executive	321	335	255	335	-
75.Councillors' Remuneration & Expenses	2,268	2,265	1,691	2,215	50
76.Business Services Directorate	1,254	1,240	1,074	1,330	(90)
77.Finance	14,382	15,042	11,374	13,642	1,400
78.Internal Audit	444	444	509	414	30
79.Customer & Digital	13,316	13,758	11,059	13,508	250
80.Legal & People	7,689	7,745	5,876	7,645	100
81.Miscellaneous Licensing	(64)	(64)	(27)	11	(75)
82.Grampian Valuation Joint Board (GVJB)	2,209	2,209	1,687	2,034	175
83.Printing	715	715	303	600	115
84.Procurement	905	798	409	918	(120)
85.Woodhill House	1,752	1,812	1,470	1,872	(60)
86.Office Accommodation	1,974	1,904	1,480	1,934	(30)
87.Building Cleaning	-	-	-	-	-
88.Public Conveniences	658	648	409	563	85
89.Operational Buildings	-	-	-	-	-
90.Estates	(2,897)	(2,807)	(2,295)	(2,257)	(550)
91.Property Construction Services	(1,514)	(1,515)	978	(1,215)	(300)
92.Building Repairs & Maintenance Fund	9,385	8,985	5,584	9,035	(50)
93.Area Managers – Buchan & Formartine	848	866	603	866	-
94.Charges to HRA	(3,450)	(3,450)	(2,579)	(3,450)	-
95.Procurement Efficiencies – Business Services Committee	(766)	-	-	-	-
Total Business Services Committee	49,429	50,930	39,860	50,000	930

2.2 Finance - £1,400,000 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 £700,000. 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. The current over budget position for this area of expenditure is £165,000. This is the first year the current External Auditors (Grant Thornton) have been engaged to undertake the audit of the Council's Annual Accounts. Additional charges of £115,000 have been incurred mainly in relation to further work undertaken on the valuations of Council properties for the 2022/23 Annual Accounts. The remainder of the pressure relates to a budget shortfall which the Finance service agreed to mitigate from the wider Finance budget for this financial year.

The net budget position for Finance is £1.4m under budget.

2.3 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.

2.4 Legal & People - £100,000 under budget

A number of vacancies arising during the year within Legal and People has resulted in a projected underspend of £100,000 within staffing costs.

2.5 Grampian Valuation Joint Board (GVJB) - £175,000 under budget

The GVJB has recently reported a projected underspend for 2023/24 of £379,000. Aberdeenshire would therefore be entitled to receive a refund for a share of this and compared against budget would result in an underspend of around £175,000.

2.6 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.

2.7 Procurement £120,000 over budget

The Service has insufficient budget to cover the contract costs payable in relation to the running of the Procurement Service. 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.

2.8 Estates £550,000 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 £125,000 over budget.

2.9 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. 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.

2.10 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 At the time of writing this report, backdated pay awards have been paid out to all employees. Funding to cover the costs over and above the budgeted 3% pay award for 2023/24 will be transferred to Service budgets in due course.
- 3.6 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 (see paragraph 2.8). 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 31 December 2023

	Balance at 1 April 2023 £000	Balance at 31 Dec 2023 £000
Revenue Earmarked Reserves		
Local Authority Continued Economic Recovery Fund (LACER)	372	372
Repairs & Maintenance Fund	500	500
Digital Strategy Reserve	1,493	1,054
Total Revenue Earmarked Reserves	2,365	1,926

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 31 Dec 2023 £000	Forecast at 31 Dec 2023 £000	Under/ (over) budget £000
General Capital Expenditure	19,283	5,896	12,471	6,812
Total Capital Expenditure	19,283	5,896	12,471	6,812

- 6.2 The Capital Plan for Business Services Committee is forecast to be under budget by **£6.812m**. 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 2nd floor of Woodhill House now reflects the new start onsite dates for the main contractors, resulting in an underbudget position of £4.754m. The remainder of the expenditure for these projects will occur in 2024/25.

Depots

Site start dates have been pushed back to April/May 2024 due to additional requirements and scope changes which has had an impact on the tender programme.

Development of Industrial Portfolio

Site start dates have been pushed back to April 2024 due to delays in the tender programme.

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.

Fraserburgh Lighthouse Museum

Site start date is due March 2024 as a result the remainder of the expenditure for this project will occur in 2024/25.

- 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 update at 30th November 2023 the Bank Rate has remained at 5.25%. Market Forecasters still 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 December 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:

£10M	9.5 years	4.81%
£10M	10 years	4.84%
£10M	10.5 years	4.87%
£10M	11 years	4.90%
£10M	11.5 years	4.72%
£10M	12 years	4.72%
£10M	12.5 years	4.19%

In December one of our Market Debt providers negotiated to be released from their deal without any breakage costs and offered a discount to make the offer more attractive. The provider had indicated prior to this that they were looking to exit from these products. We decided therefore to take advantage of the offer which gave us a discounted cash flow saving of £0.800m over the remaining option period, at which time they would have exercised their option to repay with no additional benefit. This will be split between the General Fund and Housing Revenue Account – the exact split will not be confirmed until the end of the year but will be approximately 78% to the General Fund and 22% to the Housing Revenue Account.

Bayerische Landesbank £10M 3.99% 31/01/2078 repaid 21/12/23

Investment Income at the end of December is now £1.15m.