BON ACCORD

ABERDEEN
CITY COUNCIL

FINANCIAL STATEMENT FOR THE PERIOD ENDING 30 SEPTEMBER 2024

Contents

Management Commentary

The purpose of the Management Commentary is to inform readers, helping them to assess how the Council is performing and understand our financial performance for the 6-month period to 30 September 2024.

Combined with Appendix 2, it also provides an insight into the expected financial performance for the financial year 2024/25, the challenges we face and how we will address these challenges to provide stability, financially, thus allowing our citizens to have confidence that we can continue to provide the diverse portfolio of services on which they rely. Appendices 3 and 4 present the latest information in relation to the Common Good and Group entities.

Background

The Council must comply with a wide range of legislation and regulation in the course of its work. The rigour of being an issuer of Bonds on the London Stock Exchange (LSE) has placed an increased level of regulation around council finances. Maintaining a credit rating, annually assessed, and compliance with the reporting and disclosure requirements of the LSE means an extra level of scrutiny is placed on the Council.

Moody's (the credit rating agency) published their latest credit rating assessment of the Council on 25 October 2023 with a rating of 'A2 with a stable outlook', which was a downgrade (from A1 with a negative outlook) of one 'notch'. This was the consequence of a review of the whole sub-sovereign sector on 25 October 2023, which had followed Moody's rating action on 20 October 2023 in respect of the UK Sovereign rating (Aa3, Stable outlook). The downgrade reflects Moody's view that, the fiscal flexibility of local authorities in both England and Scotland has materially deteriorated due to consistently high expenditure pressures and funding levels that do not keep pace with both cost inflation and demand. As substantial cuts have been implemented across the sector over the past decade, there is limited scope for further cuts without significant deterioration of services to a point that would be politically infeasible. At the same time, Moody's considers that more generous funding settlements for the sector are unlikely given the UK government's commitment to fiscal prudence. Consequently, Moody's anticipates that gross operating balances will decline over the medium term for most local authorities in the UK. The annual review meeting regarding the Council's credit rating last took place on 30th September 2024, with no changes made to the credit rating at that time. The date for the next annual meeting will be advised in due course.

The Council's independent external auditors, Audit Scotland, finalised the audit of the 2023/24 Annual Accounts, and these were signed on 28 June 2024, following approval at a meeting of the Audit, Risk & Scrutiny Committee on 27 June 2024. As shown in the final accounts the outturn position achieved as at 31 March 2024 was in line with forecasts, carrying forward a number of earmarked reserves. While the balance sheet was therefore underpinned by substantial Usable Reserves most of this is allocated toward supporting specific activities and hence the importance of in-year recurring funding that underpins core services.

As at 1 April 2024 the Council held Usable Reserves of £159 million and had a Net Asset Value of £1.3 billion.

The Council set its 2024/25 budgets on 6 March 2024, approving for the General Fund a range of budget savings options to set a balanced budget for the year. This included a Council Tax freeze for 2024/25 funded, in part, by the Scottish Government, and agreement to use fiscal flexibilities, but fundamentally will rely on reducing staff costs, through voluntary processes – attrition and voluntary severance and early retirement opportunities.

The General Fund budget takes account of a range of pay and price inflation pressures, in particular a provision for a pay award of 3%, which while broadly in line with other Councils in Scotland is considerably lower than the claims submitted by the Trade Unions.

As well as pressure from Scottish Government to agree a Council Tax freeze for 2024/25, there were conditions attached to the Scottish Government financial settlement in relation to maintaining funding for the Community Health and Social Care Partnership, and expectations for taking on probationary teachers. In March 2024 a change to core funding was made by Scottish Government that saw £145.5m removed from the General Revenue Grant and converted into what can only be called a ring-fenced grant to support maintaining teacher and pupil support numbers across Scotland. This latest condition places over £5m of core funding at risk, and is receivable at the end of the financial year provided teacher numbers have not reduced

Since the budget was approved the spectrum of difficulty that our financial environment continues to face has increased further. While the impact of the Covid pandemic is less obvious, citizen and customer behaviour continues to result in lower income levels. Global factors, including the Russian invasion of Ukraine, energy inflation, commodity availability and price inflation, alongside the rising cost of borrowing has caused and is sustaining a cost of living crisis for those who live, work and visit the city, as well as for the Council.

Whilst the rate of inflation (CPI) fell to 2.0% in May 2024, the situation remains critical as 3 years of high inflation (CPI has been above 2% since August 2021, peaking at 11.1% in October 2022) has reset the costs of supplies and services, fuel, and energy for good.

As a result of the turmoil in the financial markets over the past 2 years, there have been increases in the cost of government borrowing, with local authorities also seeing significant increases in borrowing rates through the PWLB than in previous years. Borrowing rates appear to have now peaked towards the end of last year. It is hoped that interest rates will start to fall below 5% and beyond over the next 6 months, as they return to more "normal" and expected levels. On the other hand cash balances are securing additional interest from short term investments and this is helping to offset a proportion of in-year costs.

The city is hosting many individuals and families and welcomes them to Aberdeen. From Ukraine, in particular, resettlement schemes have developed over the past two years with funding of a one-off nature that has been provided by UK and Scottish Governments. Our costs have risen particularly in providing education, and children and families services. Further cost is being experienced from the rise in international students attending the two Universities, and their families, with over 2,500 children enrolling for the first time during the school session 2022/23. Figures for 2023/24 and 2024/25 to date indicate that the increase has stabilised to a large extent.

As the cost of new borrowing is rising and with inflation and construction inflation pushing up the cost of building assets, the Council must expect the future cost of capital investment to rise substantially for both the General Fund and the Housing Revenue Account. The revenue implications of bringing new assets into operation are not to be underestimated too.

The Housing Revenue Account budget was approved and at the Council meeting on 14 December 2023 there was a rent increase of 4.7% agreed.

Our Financial Performance: General Fund

Performance in Quarter 2

In March 2024, the Council set its General Fund and Housing Revenue Account (HRA) revenue and capital budgets for the financial year 2024/25. Performance for the year is measured against these budgets with the projected full year position considered in Appendix 2 of this report. This section focuses on the actual financial results for the period from 1 April to 30 September 2024 presented in the format of our Annual Accounts on pages 7 to 14.

Staffing Costs:

As part of our 2024/25 budget, it was recognised that our payroll bill needed to reduce. The levers to deliver this was mainly turnover and through our current Voluntary Severance and Early Retirement (VSER) policy. Importantly managers are supported to redesign services with a reduction of resources as well as looking at automation and process improvements to remove work.

To monitor this, an Establishment Control Board (ECB) oversees all recruitment and VSER requests and monitors the level of people leaving the Council (turnover) and people newly joining the Council (new starts). Through this monitoring it is evident that the turnover and new starts are almost balancing each other out meaning that we are not experiencing a reduction in our payroll. Furthermore, the number of staff seeking VSER, and subsequently being approved is less than was forecast or assumed in the budget.

In the second quarter the Council also engaged with staff and unions on what a 35 hour working week could mean for individuals and the Council. The feedback from the engagement has been evaluated and further consultation with trade unions will continue into quarter 3.

The Expenditure and Funding Analysis, below, provides details of the net expenditure or income position for each service based on actual transactions for the period and the statutory accounting adjustments processed to date.

i. Families & Communities

Although at 51% against the full year budget the service is forecasting a significant overspend for the full year. Pressure in respect of the cost of providing education to rising numbers of pupils and children's social work services, including Out of Authority placements (OOA) are being identified as ongoing challenges.

The Public Health restrictions of the last few years, downturn in the local economy and increased costs being experienced by families, is impacting on the needs of children and families. There is a notable rise in vulnerability and need, and this is increasing demand for more specialist services. As would be anticipated, there is a level of need apparent in those seeking sanctuary in the city.

It is exceptionally difficult to predict ongoing demand with any certainty. For example, hotels can be secured for asylum dispersal schemes at short notice with limited information about the age and stage of those being placed locally. Services continue to be proactive in their response.

Concern regarding the cost of temporary accommodation is of greatest significance as homelessness presentation continue to be high.

The Council receives a substantial income from the commercial tenanted non-residential property (TNRP) portfolio. The income to the TNRP portfolio is invoiced regularly but it is not in even quarters as timing depends on individual leases. The level of collection for 2024/25, and therefore provision for bad debt, in the current market conditions, is under review. This is exacerbated by the energy and supply costs for commercial facilities, including the TECA energy centre and anaerobic digestion plant.

ii. City Regeneration & Environment
At 55% against the full year budget, the function's net expenditure for the year is above budget. The function has a budget where a significant proportion relates to capital projects therefore variances occur throughout the year depending on when project work is carried out.

iii. Corporate Services

At 52% against the full year budget, the function's net expenditure for the year to date is slightly over budget however forecasting an overall underspend for the year. Across the function a number of services are showing small under/over spends at this stage of the year.

iv. Integration Joint Board (IJB) / Adult Social Care.

The function's net expenditure is 57% which is above budget due to higher demand for commissioned services and reflects the identified budget challenges carried forward from 2023/24, which the service is managing across the year.

v. Corporate

Includes the cost of councillors, contingencies, funding to Grampian Valuation Joint Board and the repayment of capital debt. Expenditure is generally in line with budget where expenditure is being incurred, but contingency budgets are held for the purpose of being used if, and when needed.

Contingencies are critical to the effective and resilient operation of the Council, risks over the winter months that might arise include weather events such as storms, flooding, and snow; pay negotiations; the impact of inflation may be greater than forecast; the crystallisation of contingent liabilities.

vi. Other Income and Expenditure

Includes interest payable and receivable, and income received through council tax, non-domestic rates and government grants.

Income from Non-Domestic Rates (NDR) is 50% of full year budget. As the Scottish Government hold the financial risk of NDR not delivering the total value across Scotland, a shortfall in cash against the amount has been guaranteed will be topped up at the end of the financial year. This is an adjustment to the Council's General Revenue Grant.

As at quarter 2 income from Council Tax is currently sitting at 75% of budget.

Income from Scottish Government is above budget, which is due to the profiling of Grant and NDR across the year – the Council received £195m (74%) of the General Revenue Grant funding in the second quarter. The Scottish Government front load General Revenue Grant payments, before adjusting for NDR income estimates. Further adjustments will be made following the redeterminations advised by the Scottish Government, and this is paid in March 2025.

Our Financial Performance: Housing Revenue Account

- **Performance in Quarter 2**

vii. Housing Revenue Account (HRA) responsible for the provision of council housing to over 23,000 households with the most significant areas of expenditure being on repairs and maintenance and the servicing of debt incurred to fund capital investment in the housing stock. This is a ring-fenced account such that its costs must be met by rental income which at this stage in the year exceeds expenditure incurred. Rental income remains a regular source of funding. The HRA is over budget at Quarter 2 because there continues to be significant spending on

Repairs and Maintenance this year due to the level of voids work being undertaken which is constantly being reviewed to ensure the demand exists for the properties. The loss of income arising from voids continues to be a pressure, depriving the account of income. There are a number of improvement activities underway to better understand and improve the situation. The rented housing market in Aberdeen remains competitive, offering more choice to prospective tenants. Tenant arrears remain a concern too, with the aged debt analysis showing that tenants are taking longer to pay their debts.

A Housing Board Bi-Annual Report will be presented to Communities, Housing and Public Protection Committee on 21 November 2024, this will include the reviews on the Minimum Letting Standard, Choice Based Letting and the action plan for the Housing Emergency.

The HRA expenditure continues to be challenging, as also occurred in 2024/25. The HRA will continue to plan for the use of reserves in 2024/25. Changes that may be necessary include the frequency of services, the quality of services and the timing of services in order to support the financial viability of the Housing Revenue Account.

Our Financial Performance: Full Year Forecasts

A comprehensive forecast of revenue and capital budget performance for the General Fund, Housing Revenue Account and the Common Good is provided in Appendix 2 to this report.

Conclusion

The balanced budget for 2024/25 was not easily achieved and the variances in spending that are highlighted above show the challenging financial environment that the Council is continuing to work in. The Quarter 2 results leave the Council with sufficient cash resource to fund expenditure however it is clear that there are costs to be borne later in the year that will use up those resources, e.g. the payment of a pay award being the largest single item.

There are risks of increasing demand for services that the Council has a duty to provide and there are a range of potential liabilities that the Council will have to respond to if circumstances change – these are described at the end of this Appendix in the Contingent Liabilities.

Evaluating the demand pressures it is clear that homelessness, out of authority placements for children and school rolls are the high risk areas for further spending and where management attention needs to be robust and proactive to mitigate costs that the Council cannot afford.

The HRA remains under significant pressure from repair and maintenance costs and also from lost income, and these areas are focus of attention from management.

During the remainder of the year the Council will continue to act to reduce spending to give greater certainty to our forecasts, shown in Appendix 2, while reviewing and assessing the changes that the local financial environment has brought about and will re-evaluate the position to ensure that expenditure and income is being monitored and managed as required, taking appropriate action when required. The next reporting period will be Quarter 3, which will be prepared for Finance & Resources Committee on 12 February 2025.

Movement in Reserves Statement

This statement shows the movement on the different reserves held by the Council analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves.

	General Fund	Housing Revenue Account	Statutory and Other Reserves	Capital Grants Unapplied	**Total Usable Reserves**	Total Unusable Reserves	**Total Council Reserves**
	£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
Balance at 31 March 2024 brought forward	**(94,430)**	**(14,190)**	**(39,517)**	**(10,507)**	**(158,644)**	**(1,191,062)**	**(1,349,706)**
Movement in Reserves during 2024/25							
Total Comprehensive Income & Expenditure	(160,873)	(6,311)	0	0	**(167,184)**	0	**(167,184)**
Adjustments between accounting basis & funding basis under regulations	25,759	2,533	0	5,834	**34,126**	(34,126)	**(0)**
Net (Increase)/Decrease before Transfers to Reserves	**(135,114)**	**(3,778)**	**0**	**5,834**	**(133,058)**	**(34,126)**	**(167,184)**
Transfers to/from Reserves	(3,563)	0	(2,271)	0	**(5,834)**	5,834	**0**
(Increase)/Decrease in Year	**(138,677)**	**(3,778)**	**(2,271)**	**5,834**	**(138,892)**	**(28,292)**	**(167,184)**
Balance at 30 September 2024	**(233,107)**	**(17,968)**	**(41,788)**	**(4,673)**	**(297,536)**	**(1,219,354)**	**(1,516,890)**

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how the net expenditure or income is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	Quarter 2 2024/25			
Services	**Net Expenditure chargeable to General Fund & Housing Revenue Account**	**Adjustments between funding & Accounting basis**	**Net Expenditure in the CIES £'000**	**Notes**
	£'000	**£'000**	**£'000**	
City Regeneration & Environment	17,602	0	17,602	1
Corporate Services	23,289	0	23,289	2
Corporate	273	(21)	252	3
Integration Joint Board	71,240	0	71,240	4
Families & Communities	161,234	(17,534)	143,700	5
Net Cost of General Fund Services	273,639	(17,555)	256,084	
Housing Revenue Account	(3,778)	(1,110)	(4,888)	6
Net Cost of Services	269,861	(18,665)	251,196	
Other Income and Expenditure	(408,753)	(9,626)	(418,380)	7
(Surplus) or Deficit on Provision of Services	(138,892)	(28,292)	(167,184)	
Opening General Fund and HRA Balance at 31 March 2024	(108,620)			
(Surplus) or Deficit on General Fund and HRA Balance in Year	(138,892)			
To/From Other Statutory Reserves	(3,563)			
Closing General Fund and HRA Balance at 30 September 2024	(251,075)			

Notes

1. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
2. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
3. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £0.021m accounting adjustment relates to CFCR.
4. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
5. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £17.534m accounting adjustment relates to the removal of Annual Service Payments for the 3R's schools and Lochside Academy which for accounting purposes are required to be split into its component parts, payment for services; repayment of capital; and financing costs.
6. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £1.110m accounting adjustment relates to CFCR.
7. See page 4 for information relating to Net Expenditure chargeable to the General Fund. The £9.626m adjustment comprises the following three elements, which realign costs from other parts of the budget:

£7.449m	is the element of the 3R's and Lochside Annual Service Payments which is reallocated as per note 1 above to bring together financing costs which flow into the Financing and Investment Income and Expenditure line in the CIES below.
£5.344m	that is the allocation of the Marischal Square finance lease interest.
(£22.419)m	that is the allocation of capital grant income which flows into the Taxation and Non-Specific Grant Income line in the CIES below

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards (IFRS).

	Quarter 2, 2024/25			
Services	**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Notes**
	£'000	**£'000**	**£'000**	
City Regeneration & Environment	79,429	(61,826)	17,602	
Corporate Services	51,524	(28,234)	23,289	
Corporate	2,074	(1,821)	252	
Integration Joint Board	98,653	(27,413)	71,240	
Families & Communities	204,121	(60,421)	143,700	
Cost of General Fund Services	**435,799**	**(179,715)**	**256,084**	
Housing Revenue Account	50,647	(55,535)	(4,888)	
Cost of Services	**486,446**	**(235,250)**	**251,196**	
Other Operating Expenditure	0	0	0	1
Financing and Investment Income and Expenditure	12,793	(11)	12,781	2
Taxation and Non Specific Grant Income	0	(431,161)	(431,161)	3
(Surplus) or Deficit on Provision of Services	**499,239**	**(666,422)**	**(167,184)**	
(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			0	4
Impairment losses on non current assets charged to the Revaluation Reserve			0	4
(Surplus)/deficit on revaluation of available for sale financial assets			0	4
Actuarial (gains)/losses on pension losses/liabilities			0	4
Other (gains)/losses			0	4
Other Comprehensive Income and Expenditure			**0**	
Total Comprehensive Income and Expenditure			**(167,184)**	

Notes

1. This line will be used to reflect gains or losses on the disposal of assets which take place during the year.
2. This largely reflects interest payable and receivable.
3. Income in relation to Council Tax, Non-Domestic Rates collection and Scottish Government General Revenue and Capital Grant.
4. These lines are predominantly used for statutory accounting adjustments.

Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council.

The values as at 31 March 2024 are based on the Council's audited Annual Accounts 2023/24.

31 March 2024 £'000		30 September 2024 £'000	Note
2,653,067	Property, Plant & Equipment	2,763,138	1
200,273	Heritage Assets	200,273	1
144,220	Investment Property	144,220	1
32,453	Long Term Investments	32,453	2
457	Long Term Debtors	438	3
3,030,470	**Long Term Assets**	**3,140,522**	
57,817	Cash and Cash Equivalents	78,493	4
10,035	Short Term Investments	2,835	5
192,143	Short Term Debtors	183,852	6
4,945	Inventories	5,812	7
9,650	Assets Held for Sale	9,650	8
274,590	**Current Assets**	**280,641**	
(409,806)	Short Term Borrowing	(412,039)	9
(147,086)	Short Term Creditors	(112,848)	10
(7,284)	Short Term Provisions	(6,294)	11
(4,308)	PPP Short Term Liabilities	(2,767)	12
(8,876)	Accumulated Absences Account	(8,876)	13
(4,944)	Grants Receipts in Advance - Revenue	(2,658)	14
(489)	Grants Receipts in Advance - Capital	(269)	14
(582,793)	**Current Liabilities**	**(545,751)**	
(1,146,348)	Long Term Borrowing	(1,135,550)	15
(56,011)	Finance Lease	(55,537)	16
0	Long Term Creditors	0	17
(50)	Long Term Provisions	(50)	11
(116,398)	PPP Long Term Liabilities	(113,631)	12
(53,754)	Pension Liabilities	(53,754)	18
(1,372,561)	**Long Term Liabililties**	**(1,358,522)**	
1,349,706	**Net Assets**	**1,516,889**	
	Usable Reserves:		
(94,430)	General Fund Balance	(233,107)	19
(14,190)	Housing Revenue Account	(17,968)	19
(39,517)	Statutory and Other Reserves	(41,788)	19
(10,507)	Capital Grants and Receipts Unapplied	(4,673)	19
(1,191,062)	Unusable Reserves	(1,219,353)	20
(1,349,706)	**Total Reserves**	**(1,516,889)**	

Balance Sheet Notes

1. Depreciation is calculated annually and therefore no depreciation has been applied in Quarter 2. Capital expenditure to the end of Quarter 2 totalling £110.071m has been applied to Property, Plant & Equipment (this includes £63.351m of general fund expenditure and £46.720m of HRA expenditure). Disposals, revaluations, and transfers have not been accounted for in Quarter 1.

2. Long Term Investments comprises the council's interest in Aberdeen Sports Village and Hydrogen Hub.

3. Long term debtors reflect the movement based on transactions for the period.

4. Cash and cash equivalents include short term investments of £15.503m (because they can be called up at short notice i.e. 0 to 35 days) and developer's contributions of £39.682m. See the cash flow statement for an analysis of how this is used.

5. Short term investments have been adjusted as described in Note 4.

6. Short term debtors reflect the movement based on transactions for the period.

7. Inventories are adjusted at year end for inter-related account balances.

8. Assets held for sale reflect the position at March 2024. This will be reviewed in Quarter 4.

9. Short term borrowing reflects the current position based on transactions for the period.

10. Short term creditors reflects the current position based on transactions for the period.

11. Short term provisions reflects the current position with an adjustment to split this total into long and short term provisions based on year-end figures. This split will be updated in future quarters.

12. Public Private Partnership (PPP) short and long-term liabilities has been adjusted to reflect the projected position at March 2025.

13. The accumulated absences account is reviewed annually and will therefore be updated in Quarter 4.

14. The grants received in advance totals reflect the position at the end of Quarter 2.

15. Long term borrowing reflects the current position based on transactions for the period.

16. Finance Lease reflects the closing position as at March 2025.

17. Long term creditors reflect the current position based on transactions for the period.

18. Pension liabilities are only reviewed annually and will therefore be updated in Quarter 4.

19. Usable Reserves reflects the current position based on transactions for the period. Usable Reserves includes uncommitted reserves and earmarked reserves, and due to

the positive cashflow have increased to a level that is higher than forecast for the end of the year, the cashflow being used to fund expenditure that will be incurred in the second half of the year.

20. Unusable reserves have been adjusted for statutory accounting adjustments as detailed above.

Cash Flow

The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

	Quarter 2 2024/25
	£'000
Net Surplus or (Deficit) on the provision of services	167,184
Adjust net surplus or deficit on the provision of services for non cash movements	(8,345)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(22,419)
Net cash flows from Operating Activities	136,419
Net cash flows from Investing Activities	(102,871)
Net cash flows from Financing Activities	(12,873)
Net increase or decrease in cash and cash equivalents	20,676
Cash and cash equivalents at the beginning of the reporting period	57,817
Cash and cash equivalents at the end of the reporting period	**78,493**
Cash held by the Authority	0
Bank current accounts	78,493
	78,493

Contingent Liabilities

In addition to amounts recognised on the Balance Sheet, the Council is aware of the following contingent liabilities at 30 September 2024:

<u>Guarantees</u>

Transition Extreme Sports Ltd

The Council has agreed to provide a guarantee to the Bank of Scotland in respect of a maximum overdraft facility of £125,000, as approved at Finance & Resources Committee on 30 January 2024. This guarantee will remain in force until 31 March 2025.

Sport Aberdeen

The Council agreed to provide a bank guarantee to Sport Aberdeen up to a maximum of £5 million as approved at the 7 June 2016 Finance, Policy and Resources Committee. There is currently a Revolving Credit Facility for £1.4 million in place.

External Organisations - Guarantor in relation to North East Scotland Pension Fund (NESPF)

As the administering authority, the Council may admit a body to the Pension Fund as an 'admitted body' provided (i) the organisation can confirm they have sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest; and (ii) the Scheme employer is prepared to act as guarantor in the event the admitted body should cease to exist. If this situation was to occur and staff made redundant the staff over 50 years old would become entitled to immediate payment of their pension benefits. The Council has agreed several such guarantees to organisations that include Aberdeen Sports Village, Sport Aberdeen, Aberdeen Performing Arts, Aberdeen Heat and Power, Bon Accord Support Services and Bon Accord Care Ltd. The potential values guaranteed are subject to a range of actuarial assumptions.

SEEMIS Group LLP

The Council has agreed to fund any additional pension liability payments arising from its membership of the SEEMIS organisation (the provider of our schools' Management Information System). To date there has been no call on the guarantee.

Integration Joint Board (IJB)

The IJB is responsible for the strategic planning of the functions delegated to it by Aberdeen City Council and NHS Grampian. The Aberdeen City IJB Integration Scheme provides the framework in which the IJB operates including information on funding and what should happen if the IJB is projecting to overspend its budget at the year-end. Whilst steps will be taken to address this (through a Recovery Plan), ultimately the parties to the arrangement may be potentially liable should the IJB overspend.

<u>Contractual</u>

Waste Disposal

The Council has a long-term contract with an external contractor for the disposal of all relevant waste arising in the City and the operation and maintenance of waste transfer stations, recycling facilities and landfill sites. The contract commenced in September 2000 and is due to run until April 2029.

The fire at Altens East Recycling and Resource Facility on 8 July 2022 has resulted in business continuity plans being implemented and changes made to the processing of some waste streams. There have therefore been a wide range of the implications arising from the events. There will remain contractual matters to be addressed that will take time and the Council continues to work closely with the Contractor and representatives to determine the full extent of those.

The Energy from Waste (EfW) facility at Ness formally moved into operation on 12 December 2023 and will run for 20 years. The Council was the lead partner in a project carried out in collaboration with Aberdeenshire and Moray Councils, to procure an EfW facility that will deal with all residual waste from the three authorities.

<u>Litigation in connection with the above</u>

There are currently risks of adjudications regarding performance, delivery and delay of the energy from waste project and sums due under the contract as a result. Parties are currently trying to agree a settlement, but it is too early to confirm an exact figure on any liability or quantum.

<u>Decommissioning costs</u>

The inter-authority agreement covering the EfW plant states that the parties will share any decommissioning costs not taken by the contractor at the end of the project in accordance with their project share percentages. The Council is currently seeking specialists to provide a valuation for these costs which will result in a future financial liability.

Landfill Allowance Scheme (LAS)

The Scottish Government had previously introduced a scheme under which Local Authorities were to be penalised for exceeding landfill tonnage targets. The Landfill Allowance Scheme in Scotland is currently suspended, and it is expected that the Waste (Scotland) Regulations 2012 will take over the requirement for the control of landfilling biodegradable municipal waste. However, until such a repeal is formalised there remains a potential liability on the Council.

Section 75 agreements

Section 75 agreements (developer obligations) are frequently sought by the Council in relation to the award of planning permission. The possibility of liabilities arises in cases where the developer is not adhering to the agreed payment schedule and the Council elects to proceed with a project where that developer obligation funding is due. In these cases, unless a resolution can be found with the developer, the Council may be exposed to additional costs due to higher levels of borrowing than originally anticipated to “cashflow” a legally committed project. Costs could apply to the short, medium, or long-term depending on the circumstances.

The Council’s Risk Board agreed that the Developer Obligations working group would escalate to Corporate Management Team any developers who fall behind on payments, and where necessary this will be reported to Finance & Resources Committee. This is a risk which may crystalize in the current housing market conditions due to high supply costs and reduced supply of labour.

The inherent risk with all developer obligation funded projects is whether the build rate of the development is triggering financial contributions at the rate required to fund the Council projects involved. Where the Council project advances more quickly than the development, the Council may have to step in to “cashflow” the necessary funding requirement. Where a project has not been legally committed, a failure to receive the supporting developer obligation funding may require a discussion to determine whether the project should be paused, or even stopped completely. Continued detailed monitoring is therefore required by the Planning service to forecast expected build rates on developments and map out the timelines of expected trigger points for release of funding.

Impact of Covid on Working Practices, Global events and High inflation environment

All restrictions that were in place for the Covid-19 pandemic have now been lifted, and although the virus continues to circulate it no longer presents the health risk that previously existed. However, the consequences of the pandemic have been far reaching and recovery has been slow. The Council has prepared its 2024/25 budget to include taking cognisance of external environments, which could have an adverse impact on the price of commodities. There remains the possibility that further costs may arise that were not previously identified.

The emergence of Covid resulted in new working practice guidelines being issued by the Scottish Government, to set new standards to allow consultants, contractors, sub-contractors and their suppliers to work safely during the pandemic. These unforeseen changes resulted in the construction industry incurring additional costs for compliance with the risk of delays to projects. These measures also restricted numbers of staff on site which slowed down progress on works. These impacts have manifested in projects which were on site at the time of the initial lockdown, and discussions between the Council and the relevant contractors are on-going to determine liability for additional costs. It is noted that this impact is now constrained to a small number of large projects where the construction period extended over a number of years.

The Council are also aware that the construction industry is experiencing shortage of products, raw materials, staffing and logistical support which is impacting on current and future costs across the UK. Ordering lead times are extending across the sector with the risk of increased delay impacts to projects. Advance order of materials continues to be a project mitigation strategy where it can be applied.

The Russian invasion of Ukraine and resulting economic sanctions placed on Russia and Belarus has further exacerbated supply chain issues for some commodities e.g. bituminous materials, steel etc. which were sourced from eastern Europe. Now there is added risk of escalation in the Middle East due to the Palestine/Israel conflict.

Taken altogether, these external factors continue to have a risk volatility on inflation rates. This creates risks around capital projects which continue to be present to the current day. A review of project timeline delivery and financial viability for programmes/projects is an ongoing task whereby any significant programme/project impacts continue to be updated through updates to the appropriate committee.

Reinforced Autoclaved Aerated Concrete (RAAC)

Following a published update regarding the risk of failure with Reinforced Autoclaved Aerated Concrete (RAAC) panels, the Council initially carried out and completed its review of its public buildings where the presence of RAAC has been identified. RAAC was found in a small number of them, and mitigation is now in place.

Similarly, as reported previously a programme of work was conducted across the whole Council housing stock and this work is now complete. The outcome of this review across the whole housing stock has resulted in the identification of a housing type with RAAC, located to the south of the city in the Balnagask area.

The outcome of the above has been reported to Council and an options appraisal for the affected housing at Balnagask is now ongoing. This appraisal will consider mitigation options such as remedial works or demolition. At a meeting of Council on 21 August 2024, demolition followed by a rebuilding programme was approved as the preferred option. The Chief Officer – Capital was instructed to proceed with the demolition aspect of this, and report back to the next appropriate meeting of the Communities, Housing and Public Protection Committee on the initial phasing of demolition and landscape details. It is expected that there will be financial liability to both the General Fund and the Housing Revenue Account.

Scottish Child Abuse Enquiry

The Redress for Survivors (Historical Child Abuse in Care) (Scotland) Act 2021 opened on 8 December 2021 to provide financial and non-financial redress to survivors of historical child abuse in care in Scotland. Fair and meaningful financial contributions are made from organisations historically involved in the care of children. The local government contribution is made on the basis that payments are made to survivors who enter into a waiver which means that litigation cannot then be pursued as a separate matter. The scheme is delivered by Redress Scotland and the Scottish Government (SG). Following negotiation between the COSLA Resources Spokesperson and the now First Minister Mr Swinney MSP, in October 2021 Leaders agreed Local Authorities will contribute £100m to the cost of the Redress Scheme over a 10-year period.

Civil Litigation claims continue, both as lead authority to the former Grampian Regional Council and Aberdeen District Council as well as claims solely against Aberdeen City Council. Any uninsured claims or associated costs in respect of these require to be met by Aberdeen City Council. The costs of these are unquantifiable at this time but will give rise to a future financial liability.

Transport Scotland Funding

A decision was made at a meeting of Council on 11 October 2024 for small changes to the City Centre Bus Prioritisation measures. Grant funding for South College Street Roads Infrastructure has been received from Transport Scotland's Bus Partnership Fund in order to facilitate bus prioritisation measures. Based on the conditions of the grant, there is a risk that the small change to those measures may result in a request from Transport Scotland for the return of grant funding. The Council are awaiting confirmation from Transport Scotland at this time.