FINANCIAL STATEMENT
FOR THE PERIOD ENDING
30 JUNE 2022

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 3-month period to 30 June 2022.

Combined with Appendix 2, it also provides an insight into the expected financial performance for the remainder of the financial year 2022/23, 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. Since 2016/17 the issue of bonds on the London Stock Exchange (LSE) has placed an increased level of regulation around council finances in particular. 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 in January 2022 maintaining a rating of 'A1 with a stable outlook', in line with the recent change to the UK's rating in October 2020 remaining one notch below the UK Government.

The Council's 2021-22 Annual Accounts are currently undergoing audit by KPMG LLP, independent external auditor. The outturn position achieved as at 31 March 2022 was in line with forecasts, carrying forward a large value of grant funding, received to support the continued response, but predominantly for recovery from the Covid pandemic. This placed the Council in a strong place to move into 2022/23 and tackle the financial pressures that it faces.

As at 1 April 2022 the Council held Usable Reserves of £108.2 million and had a Net Asset Value of £1.4 billion.

The Council set its 2022/23 budgets on 7 March 2022, approving for the General Fund a range of budget savings options to set a balanced budget for the year. This included a Council Tax increase of 3%. The Council also agreed to use a proportion of the earmarked reserves to maintain services and fund priorities.

The General Fund budget took account of a range of pay and price inflation pressures, in particular the pay award of c.2%, which was in line with the stated Public Sector Pay Policy of the Scottish Government when the budget was set. This was an estimate, as the pay deal came to an end on 31 March 2022.

Proposals to make use of Scottish Government approved fiscal flexibilities to manage the cost of capital financing costs were included in the budget – a one-off funding solution for 2022/23. There were conditions attached to the Scottish Government financial settlement in relation to funding for Community Health and Social Care and to support maintaining teacher numbers across Scotland. Demand and emerging pressures from higher school rolls and out of authority placements were also incorporated.

Since the budget was approved there have continued to be changes to the financial environment. The impact of Covid-19 continues to be felt by the Council, both in supporting our citizens and our city, and in terms of the impact on Council finances. The rising cost of energy will affect almost all of the Council's services during 2022/23 and the influence of increasing inflation will affect the cost of goods and services to the Council.

The Housing Revenue Account budget was approved and as agreed at the Council meeting on 10 March 2021 there was a two year rent freeze, with no increase to rents charges for 2022/23, which was a deviation from the approved Council fixed term rent policy.

Our Financial Performance: General Fund

- **Performance in Quarter 1**

In March 2022, the Council set its General Fund and Housing Revenue Account (HRA) revenue and capital budgets for the financial year 2022/23. 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 June 2022 presented in the format of our Annual Accounts on pages 6 to 13.

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.

1. Operations

At 27% against the full year budget, the function's net expenditure for the year is above budget mainly as a result of not yet receiving the specific Early Learning and Childcare expansion grant. While, encouragingly the majority of services are on target or under budget there are a number of significant areas that are over budget, such as Out of Authority Placements, which is being offset in part by lower spend on Fostering, and Fleet Management.

2. Customer

At 24% against the full year budget, the function’s net expenditure for the year to date is under budget. Most services are showing small underspends at this stage of the year.

3. Commissioning

At 28% against the full year budget, the function’s net expenditure for the year is above budget. This relates to project funding yet to be received and the allocation of savings to services not yet having been achieved due to pressure on contracts from inflation and prices increase, risk of these savings not being met are highlighted in Appendix 2 regarding the full year.

4. Resources

The function has a budget where a significant proportion of costs are recharged to other accounts of the Council and to external customers. The recharges are directly related to the progress of specific projects in the capital programme and are usually undertaken later in the year. Corporate energy and utility costs have immediately emerged in quarter 1.

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

The function’s net expenditure is 13% against the full year budget. This relates to the carry forward of income from 2021-22.

6. 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, including for pay as described above, are held for the purpose of being used if needed.

Contingencies are critical to the effective and resilient operation of the Council, risks over the next nine months that might arise include weather events such as storms, flooding and snow;

pay negotiations are not yet settled for 2022/23; the impact of inflation may be greater than forecast; the crystalisation of contingent liabilities.

7. Other Income and Expenditure

Includes interest payable and receivable, income and expenditure from trading operations (car parking, investment property and building services) and income received through council tax, non-domestic rates and government grants.

Income from Non-Domestic Rates (NDR) is 19% of full year budget. There continues to be challenges in collection as businesses continue to be impacted by fallout from COVID-19. This position may improve as we progress throughout the year. The Scottish Government will top up any shortfall at the end of the financial year, through a net payment received as an adjustment to the Council's General Revenue Grant.

As at quarter 1 income from Council Tax is forecast to be £1m above budget for the full year based on theincome levels achieved last year and the expectation of a number of new properties being added to the valuation roll. Income is currently sitting at 41% of budget.

Income from Scottish Government is above budget, which is due to the profiling of Grant and NDR across the year. The Scottish Government front load General Revenue Grant payments, before adjusting for NDR income estimates. Further adjustments will be made following any redeterminations advised by the Scottish Government.

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 2022/23, 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.

Income from car parking has not returned to pre Covid-19 levels, however it is hoped that this will improve for 2022/23 with all restrictions having been removed. This continues to be monitored on an ongoing basis.

Our Financial Performance: Housing Revenue Account

- **Performance in Quarter 1**

8. Housing Revenue Account (HRA) is responsible for the provision of council housing to over 20,000 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 ahead of budget at Quarter 1 because the capital financing charges have yet to be charged through the account and low spend on Repairs and Maintenance, which is billed in arrears. The loss of income arising from voids continue to be a pressure, depriving the account of income, improvement plans are in place to address the availability of void properties. 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.

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

This is the first quarterly financial performance report being presented to the City Growth & Resources committee for consideration of the financial year 2022/23.

Following a further year of restrictions early in the year caused by the Covid-19 pandemic, there were continued pressures over many areas of the Council's finances. The year ended positively with the easing of almost all restrictions and the Council recording a small operational surplus, and carrying a level of grant funding, directly related to the Covid-19 pandemic, into the new financial year.

The Council agreed in its budget for 2022/23 to use some of that grant funding, £5m, to support Council Services, the service standards and commissioning intentions in place. This was in addition to taking advantage of fiscal flexibilities agreed with Scottish Government to reduce capital financing costs on a one-off basis.

The impact of the pandemic continues to have a lasting effect on the Council and this means 2022/23 will be uncertain, particularly in relation to income levels.

It is likely that the areas of income such a car parking, Council Tax, planning and building fees which were impacted by the pandemic will continue to make a recovery in 2022/23. This appears less certain for commercial property income.

The Council at the end of Quarter 1 has cash to support it through a large part of the year, with grant funding being front-loaded, however with one-off funding streams being approved as part of the budget for 2022/23 the Council will rely on its own resources in the final quarter.

Emerging risks, not seen on the same scale for decades are rising inflation levels and supply chain voliatiliy, in the first quarter there is evidence of this having a real impact, such as utility cost increases, forecasts for the year include for no improvement over the year.

Spend levels are high in certain areas of the budget that will be familiar in respect of children and education services, and there has been an increased recruitment and retention of teachers in schools to support higher school rolls.

During the remainder of the year the Council will continue to review and assess the changes that the local financial environment and pandemic 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 2, which will be prepared for Committee on 2 November 2022.

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 2022 brought forward	**(72,152)**	**(15,215)**	**(20,047)**	**(812)**	**(108,227)**	**(1,326,312)**	**(1,434,539)**
Movement in Reserves during 2022/23							
Total Comprehensive Income & Expenditure	(107,237)	(8,573)	0	0	**(115,810)**	0	**(115,810)**
Adjustments between accounting basis & funding basis under regulations	16,050	4,263	0	0	**20,312**	(20,312)	**0**
Net (Increase)/Decrease before Transfers to Reserves	**(91,187)**	**(4,311)**	**0**	**0**	**(95,498)**	**(20,312)**	**(115,810)**
Transfers to/from Earmarked Reserves	476	0	(476)	0	**0**	0	**0**
(Increase)/Decrease in Year	**(90,711)**	**(4,311)**	**(476)**	**0**	**(95,498)**	**(20,312)**	**(115,810)**
Balance at 30 June 2022	**(162,863)**	**(19,526)**	**(20,523)**	**(812)**	**(203,725)**	**(1,346,624)**	**(1,550,349)**

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 1 2022/23			
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**	
Operations	74,039	(12,844)	61,195	1
Customer	9,703	0	9,703	2
Commissioning	6,402	0	6,402	3
Resources	(3,810)	0	(3,810)	4
Integration Joint Board	15,293	0	15,293	5
Corporate	(20,875)	(337)	(21,212)	6
Net Cost of General Fund Services	80,753	(13,181)	67,571	
Housing Revenue Account	(4,311)	(3,170)	(7,481)	7
Net Cost of Services	76,442	(16,351)	60,091	
Other Income and Expenditure	(171,939)	(3,962)	(175,901)	8
(Surplus) or Deficit on Provision of Services	(95,498)	(20,312)	(115,810)	
Opening General Fund and HRA Balance at 31 March 2022	(87,367)			
(Surplus) or Deficit on General Fund and HRA Balance in Year	(95,498)			
To/From Other Statutory Reserves	476			
Closing General Fund and HRA Balance at 30 June 2022	(182,389)			

Notes

1. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £12.844m 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.
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. There are no accounting adjustments relating to this service in this quarter.
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. There are no accounting adjustments relating to this service in this quarter.
6. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £0.337m accounting adjustment relates to CFCR.
7. See page 3 for information relating to Net Expenditure chargeable to the Housing Revenue Account. The £3.170m accounting adjustment relates to CFCR.

8. See page 4 for information relating to Net Expenditure chargeable to the General Fund. The £3.962m adjustment comprises the following three elements, which realign costs from other parts of the budget:

£8.317m	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.
(£0.498)m	that is the allocation of the Marischal Square finance lease payment.
(£11.781)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 1, 2022/23			
Services	**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Notes**
	£'000	**£'000**	**£'000**	
Operations	74,372	(13,177)	61,195	
Customer	22,119	(12,416)	9,703	
Commissioning	9,027	(2,625)	6,402	
Resources	12,418	(16,228)	(3,810)	
Integration Joint Board	32,705	(17,412)	15,293	
Corporate	(20,580)	(632)	(21,212)	
Cost of General Fund Services	**130,062**	**(62,491)**	**67,571**	
Housing Revenue Account	18,498	(25,978)	(7,481)	
Cost of Services	**148,560**	**(88,469)**	**60,091**	
Other Operating Expenditure	0	0	0	1
Financing and Investment Income and Expenditure	55,125	(13,365)	41,760	2
Taxation and Non Specific Grant Income	0	(217,661)	(217,661)	3
(Surplus) or Deficit on Provision of Services	**203,685**	**(319,495)**	**(115,810)**	
(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			**(115,810)**	

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 trading income and 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 2022 are based on the Council's unaudited Annual Accounts 2021/22. The audit of the 2021/22 Annual Accounts has not yet been finalised.

31 March 2022 £'000		30 June 2022 £'000	Note
2,492,551	Property, Plant & Equipment	2,548,422	1
196,272	Heritage Assets	196,272	1
217,712	Investment Property	217,712	1
15,503	Long Term Investments	15,503	2
657	Long Term Debtors	779	3
2,922,695	**Long Term Assets**	**2,978,688**	
102,593	Cash and Cash Equivalents	94,585	4
20,025	Short Term Investments	6,116	5
113,029	Short Term Debtors	67,832	6
2,906	Inventories	2,946	7
11,993	Assets Held for Sale	11,993	8
250,547	**Current Assets**	**183,472**	
(223,359)	Short Term Borrowing	(181,218)	9
(122,608)	Short Term Creditors	(50,871)	10
(3,533)	Short Term Provisions	(3,400)	11
(4,527)	PPP Short Term Liabilities	(5,332)	12
(7,224)	Accumulated Absences Account	(7,224)	13
(1,438)	Grants Receipts in Advance - Revenue	(77)	14
(31,257)	Grants Receipts in Advance - Capital	(26,732)	14
(393,947)	**Current Liabilities**	**(274,855)**	
(1,043,105)	Long Term Borrowing	(1,042,568)	15
(56,643)	Finance Lease	(56,107)	16
0	Long Term Creditors	0	17
(551)	Long Term Provisions	(551)	11
(126,038)	PPP Long Term Liabilities	(120,706)	12
(118,419)	Pension Liabilities	(118,419)	18
(1,344,756)	**Long Term Liabililties**	**(1,338,351)**	
1,434,539	**Net Assets**	**1,548,953**	
	Usable Reserves:		
(72,152)	General Fund Balance	(162,863)	19
(15,215)	Housing Revenue Account	(19,526)	19
(20,047)	Statutory and Other Reserves	(20,523)	19
(812)	Capital Grants and Receipts Unapplied	(812)	
(1,326,312)	Unusable Reserves	(1,346,625)	20
(1,434,539)	**Total Reserves**	**(1,550,349)**	

Balance Sheet Notes

1. Depreciation is calculated annually and therefore no depreciation has been applied in Quarter 1. Capital expenditure to the end of Quarter 1 totalling £55.871m has been applied to Property, Plant & Equipment (this includes £37.901m of general fund expenditure and £17.970m of HRA expenditure). Disposals, revaluations and transfers have not been accounted for in Quarter 3.

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

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

4. Cash and cash equivalents include short term investments of £78.984m (because they can be called up at short notice i.e. 0 to 35 days) and developer's contributions of £24.642m. 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 reflects 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 2022. This will be reviewed in Q4

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. PPP short and long-term liabilities has been adjusted to reflect the projected position at March 2023.

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 1.

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

16. Finance Lease reflects the closing position as at March 2023.

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 1 2022/23
	£'000
Net Surplus or (Deficit) on the provision of services	115,810
Adjust net surplus or deficit on the provision of services for non cash movements	(6,834)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(11,781)
Net cash flows from Operating Activities	97,195
Net cash flows from Investing Activities	(57,998)
Net cash flows from Financing Activities	(47,205)
Net increase or decrease in cash and cash equivalents	(8,008)
Cash and cash equivalents at the beginning of the reporting period	102,593
Cash and cash equivalents at the end of the reporting period	**94,585**
Cash held by the Authority	39
Bank current accounts	94,546
	94,585

Contingent Liabilities

In addition to amounts recognised on the Balance Sheet, the Council is aware of the following contingent liabilities at 30 June 2022:

<u>Guarantees</u>

Aberdeen Science Centre (formerly Satrosphere)

The Council has agreed to provide a guarantee to the Bank of Scotland for the sum of £127,654 in support of an overdraft facility and card guarantee facility until 30 September 2022, as approved at a meeting of full Council on 10 March 2021.

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 £250,000, as approved at Council on 10 March 2021. This guarantee will remain in force until 30 September 2022.

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 a number of such guarantees to organisations that include Aberdeen Sports Village, Sport Aberdeen, Aberdeen Performing Arts, Aberdeen International Youth Festival, 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.

Contractual

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 for 25 years.

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. It is not yet known what the financial implications are and the Council continues to work closely with the Contractor and representatives to determine the full extent of those implications.

The Council is lead partner in a three-authority project with Aberdeenshire and Moray Councils to procure an energy from waste facility which will deal with all residual waste from the three authorities. The contract commenced on 8 August 2019 with the facility expected to come online in 2022/23 and will run for 20 years.

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 in order 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 City Growth & 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. More 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, Social Distancing and the Capital Programmes

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 works 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.

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. There is evidence of a contraction in the construction industry particularly in terms of small to medium sized suppliers. The war in 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.

Taken altogether, this has manifested as the highest level of cost inflation experienced for around 30 years. This is creating new risks around capital projects. A review of project timeline delivery and financial viability was instructed by the City Growth and Resources committee at its meeting of 21 June 2022 and is reported at Appendix 5.

Aberdeen Art Gallery

A contractual dispute exists in relation to who bears the cost of the delays in respect of the refurbishment of the Art Gallery. A Court of Session action was raised against the Council by McLaughlin & Harvey “MCLH”, the main contractor, following adjudication in favour of the Council.

A proof in the Court action has been fixed to take place in the Court of Session from 26 July 2022 for 6 weeks. Any financial liability remain uncertain.

Scottish Child Abuse Enquiry

The Scottish Parliament introduced a redress Bill on 13 August 2020 for survivors of abuse in care in Scotland. Survivors as an alternative to civil litigation may choose to apply for redress. Local Authorities, as a Local Government sector, will pay financial contributions towards the redress scheme and this has now been agreed as part of the Local Government Settlement and will be applied for the next 10 years.

Some Civil Litigation claims are still being received by the Council, both as lead authority for the former Grampian Regional Council and Aberdeen District Council as well as claims solely against Aberdeen City Council.

Any uninsured claims or associated costs against Grampian Regional Council will require to be met in part by Aberdeenshire and Moray Councils. Any uninsured claims or associated costs in respect of Aberdeen District Council or Aberdeen City Council will 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.

Structural Safety (RAAC)

As a result of the Standing Committee on Structural Safety (SCPSS) releasing an alert in connection with Reinforced Autoclaved Aerated Concrete (RAAC) Planks, which were commonly used in public buildings in the 1960's, 1970's and 1980's, the Council has put in place a programme of inspections to give some assurance over whether these materials are present within any of their properties. At this time, it is not known the extent of the issue (if any) or any remedial costs. This may create a future financial liability.

COVID-19 Impact

Almost all restrictions that were in place for the Covid-19 pandemic have now been lifted, the virus continues to circulate, with new variants emerging, The Council prepared it's 2022/23 budget to include known Covid-19 related implications, however there remains the possibility that further costs may arise that were not previously identified.