



**FINANCIAL STATEMENT  
FOR THE PERIOD ENDING  
31 DECEMBER 2022**

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## 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 9-month period to 31 December 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. 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 change to the UK's rating in October 2020 and remained one notch below the UK Government. Moody's most recently reviewed the UK sovereign rating on 21 October 2022, publishing a rating of 'Aa3 with a negative outlook'. Due to the relationship between UK and the Council ratings it meant that the Council rating was automatically updated to 'A1 with a negative outlook', one notch below UK Government. The Council had its annual reassessment meeting in December and is currently awaiting the publication of the outcome.

The Council's 2021-22 Annual Accounts were audited by KPMG LLP, independent external auditor, and approved at Audit, Risk & Scrutiny Committee on 27 September 2022. 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 been significant 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, a similar response has been required to address the Ukrainian refugee situation with over 1,400 people being supported in the city since June 2022. The rising cost of energy will affect almost all the Council's services during 2022/23 and the influence of increasing inflation that remains close to a 40-year high continues to affect the cost of goods and services to the Council.

The economic conditions in the country were extremely volatile through the second quarter, with a change of Prime Minister in early September, a mini budget presented by the Chancellor on 23 September, that brought in the Energy Price Guarantee amongst many tax cutting initiatives but was followed by a period of extreme financial turmoil. Financial markets reacted such that many of the initiatives announced in the mini budget were subsequently reversed by a new Chancellor. That left a shorter duration for the Energy Price Guarantee scheme but retained the National Insurance Contribution rate reduction that applied from November 2022.

Whilst the rate of inflation and RPI fell slightly in November 2022, the situation remained critical as high inflation impacted on the costs of supplies and services, fuel, and energy.

The result has been an increase in the cost of government borrowing, increasing borrowing rates for individuals, businesses, and the public sector at large, with local authorities seeing significant increases in borrowing rates through the PWLB, and while rates spiked between 23 and 28 September 2022 to rates not seen since 2007, as at 31 December the borrowing rates were similar to those last experienced in September 2011. The cost of new borrowing is rising and with inflation and construction inflation at very high levels also being key factors, the Council should expect the cost of capital investment to rise substantially for both the General Fund and the Housing Revenue Account.

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 charged for 2022/23, which was a deviation from the approved Council fixed term rent policy.

## **Our Financial Performance: General Fund**

### **• Performance in Quarter 3**

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 31 December 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. This is the first presentation of data based on the updated Organisational Structure, following the decisions made by Council in August 2022.

#### 1. Children's and Family Service

At 76% against the full year budget encouragingly the majority of services are on target or under budget, which is providing cover for a number of significant areas that are over budget, such as Out of Authority Placements and Long-Term Absences. The fact the teachers' pay award has not yet been agreed for 2022/23 means that expenditure hasn't yet been incurred against one of the budgets provided to pay for this.

## 2. Resources

At 87% 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 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 in the final quarter of the year. Corporate energy and utility costs have had an impact since the first quarter and continue to be significantly above budget. The cost of materials and parts in Fleet Services are the subject of inflationary pressures too.

## 3. Customer

At 69% 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.

## 4. Commissioning

At 88% 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 being achieved due to pressure on contracts from inflation and prices increase, the risk of these savings not being met are highlighted in Appendix 2 regarding the full year.

## 5. Operations

At 78.14% of full year budget, net expenditure is in line with expectations.

## 6. Integration Joint Board (IJB) / Adult Social Care.

The function's net expenditure is 63.27% for the year to date and is below budget. This relates to the carry forward of income from 2021/22.

## 7. 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 three 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 crystallisation of contingent liabilities. One off savings in respect of the teachers strike action for December amounted to £325,000.

## 8. 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 67% 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 3 income from Council Tax is forecast to be £2.4m above budget for the full year based on the income levels achieved last year and the expectation of a number of new properties

being added to the valuation roll. Income is currently sitting at 113% of budget, and takes account of a high number of residents will have paid all of their Council Tax by January.

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 the redeterminations advised by the Scottish Government, and this is paid in March 2023.

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, this continues to be monitored on an ongoing basis.

## **Our Financial Performance: Housing Revenue Account**

### **• Performance in Quarter 3**

9. 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 the regular source of funding. The HRA is ahead of budget at Quarter 3 because the capital financing charges have yet to be charged through the account. 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 third quarterly financial performance report being presented to the committee for consideration of financial year 2022/23.

While the previous year ended positively with the easing of almost all Covid-19 restrictions and the Council recording a small operational surplus, 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 was hoped that the areas of income such as planning and building fees, car parking and commercial property which were impacted by the pandemic would make a recovery in 2022/23, however this is now unlikely based on the majority of the year having now passed. Council Tax remains the one area now where more income will be received than budget.

The Council at the end of Quarter 3 has cash to support it through the last 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.

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

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, which has led to much lower levels of savings from staff turnover than had been expected.

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 4, which will be prepared for Finance & Resources Committee on 17 May 2023.

## 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
<b>Balance at 31 March 2022 brought forward</b>	<b>(72,152)</b>	<b>(15,215)</b>	<b>(20,047)</b>	<b>(812)</b>	<b>(108,227)</b>	<b>(1,299,578)</b>	<b>(1,407,805)</b>
<b>Movement in Reserves during 2022/23</b>							
Total Comprehensive Income & Expenditure	(163,142)	(19,287)	0	0	<b>(182,428)</b>	0	<b>(182,428)</b>
Adjustments between accounting basis & funding basis under regulations	49,822	4,769	0	0	<b>54,591</b>	(54,591)	<b>0</b>
<b>Net (Increase)/Decrease before Transfers to Reserves</b>	<b>(113,320)</b>	<b>(14,517)</b>	<b>0</b>	<b>0</b>	<b>(127,837)</b>	<b>(54,591)</b>	<b>(182,428)</b>
Transfers to/from Reserves	682	0	(682)	0	<b>0</b>	(0)	<b>(0)</b>
<b>(Increase)/Decrease in Year</b>	<b>(112,638)</b>	<b>(14,517)</b>	<b>(682)</b>	<b>0</b>	<b>(127,837)</b>	<b>(54,591)</b>	<b>(182,428)</b>
<b>Balance at 31 December 2022</b>	<b>(184,789)</b>	<b>(29,733)</b>	<b>(20,729)</b>	<b>(812)</b>	<b>(236,064)</b>	<b>(1,354,170)</b>	<b>(1,590,234)</b>

## 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.*

Services	Quarter 3 2022/23			Notes
	Net Expenditure chargeable to General Fund & Housing Revenue Account	Adjustments between funding & Accounting basis	Net Expenditure in the CIES £'000	
	£'000	£'000	£'000	
Children & Family Services	170,250	0	170,250	1
Operations	118	(12,844)	(12,726)	2
Customer	30,367	0	30,367	3
Commissioning	21,083	0	21,083	4
Resources	51,373	0	51,373	5
Integration Joint Board	73,795	0	73,795	6
Corporate	13,200	(3,505)	9,695	7
<b>Net Cost of General Fund Services</b>	<b>360,186</b>	<b>(16,349)</b>	<b>343,837</b>	
Housing Revenue Account	(14,517)	(3,677)	(18,194)	8
<b>Net Cost of Services</b>	<b>345,669</b>	<b>(20,026)</b>	<b>325,643</b>	
Other Income and Expenditure	(473,506)	(34,566)	(508,072)	9
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(127,837)</b>	<b>(54,591)</b>	<b>(182,428)</b>	
Opening General Fund and HRA Balance at 31 March 2022	(87,367)			
(Surplus) or Deficit on General Fund and HRA Balance in Year	(127,837)			
To/From Other Statutory Reserves	682			
<b>Closing General Fund and HRA Balance at 31 December 2022</b>	<b>(214,522)</b>			

## Notes

- 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
- 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.
- 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.
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- See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £3.505m accounting adjustment relates to CFCR.

8. See page 3 for information relating to Net Expenditure chargeable to the Housing Revenue Account. The £3.677m accounting adjustment relates to CFCR.
9. See page 4 for information relating to Net Expenditure chargeable to the General Fund. The £34.566m 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.
  - (£0.497) m that is the allocation of the Marischal Square finance lease payment.
  - (£42.386) 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).*

Services	Quarter 3, 2022/23			Notes
	Gross Expenditure	Gross Income	Net Expenditure	
	£'000	£'000	£'000	
Children & Family Services	199,159	(28,909)	170,250	
Operations	(12,718)	(8)	(12,726)	
Customer	71,571	(41,204)	30,367	
Commissioning	31,086	(10,003)	21,083	
Resources	127,124	(75,751)	51,373	
Integration Joint Board	121,232	(47,436)	73,795	
Corporate	10,989	(1,294)	9,695	
<b>Cost of General Fund Services</b>	<b>548,442</b>	<b>(204,605)</b>	<b>343,837</b>	
Housing Revenue Account	60,576	(78,770)	(18,194)	
<b>Cost of Services</b>	<b>609,019</b>	<b>(283,375)</b>	<b>325,643</b>	
Other Operating Expenditure	0	0	0	1
Financing and Investment Income and Expenditure	58,684	(50,506)	8,177	2
Taxation and Non Specific Grant Income	0	(516,249)	(516,249)	3
<b>(Surplus) or Deficit on Provision of Services</b>	<b>667,702</b>	<b>(850,131)</b>	<b>(182,428)</b>	
(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
<b>Other Comprehensive Income and Expenditure</b>			<b>0</b>	
<b>Total Comprehensive Income and Expenditure</b>			<b>(182,428)</b>	

### 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 audited Annual Accounts 2021/22.

31 March 2022 £'000		31 December 2022 £'000	Note
2,532,912	Property, Plant & Equipment	2,704,491	1
196,272	Heritage Assets	196,272	1
150,617	Investment Property	150,617	1
15,503	Long Term Investments	15,503	2
657	Long Term Debtors	1,427	3
<b>2,895,962</b>	<b>Long Term Assets</b>	<b>3,068,310</b>	
102,593	Cash and Cash Equivalents	58,377	4
20,025	Short Term Investments	11,360	5
113,029	Short Term Debtors	134,540	6
2,906	Inventories	25,673	7
11,993	Assets Held for Sale	11,993	8
<b>250,547</b>	<b>Current Assets</b>	<b>241,943</b>	
(223,359)	Short Term Borrowing	(217,801)	9
(122,608)	Short Term Creditors	(97,436)	10
(3,533)	Short Term Provisions	(300)	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	(48)	14
(31,257)	Grants Receipts in Advance - Capital	(26,146)	14
<b>(393,947)</b>	<b>Current Liabilities</b>	<b>(354,288)</b>	
(1,043,105)	Long Term Borrowing	(1,069,949)	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
<b>(1,344,756)</b>	<b>Long Term Liabilities</b>	<b>(1,365,732)</b>	
<b>1,407,805</b>	<b>Net Assets</b>	<b>1,590,234</b>	
	Usable Reserves:		
(72,152)	General Fund Balance	(184,789)	19
(15,215)	Housing Revenue Account	(29,733)	19
(20,047)	Statutory and Other Reserves	(20,729)	19
(812)	Capital Grants and Receipts Unapplied	(812)	
(1,299,578)	Unusable Reserves	(1,354,170)	20
<b>(1,407,805)</b>	<b>Total Reserves</b>	<b>(1,590,234)</b>	

## Balance Sheet Notes

1. Depreciation is calculated annually and therefore no depreciation has been applied in Quarter 3. Capital expenditure to the end of Quarter 3 totalling £171.578m has been applied to Property, Plant & Equipment (this includes £97.689m of general fund expenditure and £73.889m 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 £30.590m (because they can be called up at short notice i.e. 0 to 35 days) and developer's contributions of £26.418m. 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 3.
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.*

	<b>Quarter 3 2022/23</b>
	<b>£'000</b>
Net Surplus or (Deficit) on the provision of services	182,428
Adjust net surplus or deficit on the provision of services for non cash movements	(63,161)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(27,550)
Net cash flows from Operating Activities	91,717
Net cash flows from Investing Activities	(152,693)
Net cash flows from Financing Activities	16,759
Net increase or decrease in cash and cash equivalents	(44,217)
Cash and cash equivalents at the beginning of the reporting period	102,593
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>58,377</b>
Cash held by the Authority	37
Bank current accounts	58,340
	<b>58,377</b>

## **Contingent Liabilities**

In addition to amounts recognised on the Balance Sheet, the Council is aware of the following contingent liabilities at 31 December 2022:

### **Guarantees**

#### **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 City Growth & Resources Committee on 21 September 2022. This guarantee will remain in force until 31 March 2024.

#### **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.

#### **Aberdeen Heat & Power**

The Council has agreed to provide a bank guarantee to Aberdeen Heat and Power up to a maximum of £1 million as approved at City Growth and Resources Committee on 21 September 2022. This guarantee will be in place from 1 November 2022 to 31 March 2024.

The Council has agreed to provide a guarantee for the purchase gas as approved at City Growth and Resources Committee on 21 September 2022. This guarantee will be in place from 1 November 2022 until 31 March 2023.

#### **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 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. The financial impact of known implications has been assessed and incorporated into the full year forecast for 2022/23. 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 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.

### **Litigation in connection with the above**

There are currently several adjudications regarding performance, delivery and delay of the energy from waste project and sums due under the contract as a result. Parties are too far apart at present to put an exact figure on any liability or quantum.

### **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 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 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.

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 reported to the City Growth and Resources committee and full Council in August and will continue to be updated through updates to this committee.

### **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. The financial impact of known implications has been assessed and incorporated into the full year forecast for 2022/23. 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.

Finance and Resources Committee on 7<sup>th</sup> December 2022, agreed to progress the reinstatement of the Altens East Recycling and Resource Facility.

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.

There are currently a number of adjudications about issues to do with performance, delivery and delay of the energy from waste project and sums due under the contract as a result. Parties are too far apart at present to put an exact figure on any liability or quantum.

### **Scottish Child Abuse Inquiry**

Redress Scotland was set up following an act passed by the Scottish Parliament in 2021. Redress for Survivors (Historical Child Abuse in Care) (Scotland) Act 2021. Although Redress Scotland works with guidance and funding from the Scottish Government, it is not part of any Government department. Survivors, as an alternative to civil litigation, may choose to apply for redress. Local Authorities, as a Local Government sector, 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.

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 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.

### **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 has prepared it's 2022/23 and 2023/24 budget to include known Covid-19 related implications, however, there remains the possibility that further costs may arise that were not previously identified.