



**FINANCIAL POSITION
FOR THE YEAR 2022/23**

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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 year to 31 March 2023.

It also provides an insight into the challenges we face and how we will address these challenges to provide assurance in relation to our financial stability, thus allowing our citizens to have confidence that we can continue to provide the diverse portfolio of services on which they rely.

Background

The Council maintains a General Fund, for day to day Council operations, and also a Housing Revenue Account, for administering the Council housing stock. These statutory funds both feature revenue and capital expenditure and income, and accounting practice, statutory guidance and the legislation all play a part in determining the financial performance reporting.

The Council is also responsible for the Common Good.

In March 2022 the Council set balanced budgets for financial year 2022/23. This took account of obligations and duties placed upon it by legislation and national priorities alongside local political priorities, and was the fifth budget designed around our commissioning approach and the Target Operating Model (TOM). The financial conditions in which the budget was set remained challenging as continued resource constraint, settlement conditions and funding targeted on specific projects / priorities meant that less money was available to fund the core Council operations that it had in place. Savings and efficiencies were a familiar and ever-present requirement in setting the budget and pressures did not reduce during the year requiring the strong financial management the Council has demonstrated.

Since the budget was approved in March 2022 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 1,800 people being supported in the city since June 2022. The rising cost of energy affected 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 March 2023 the borrowing rates were similar to those last experienced in 2011/12. The cost of new borrowing has risen and with

inflation and construction inflation at very high levels also being key factors, the Council should expect the cost of future capital investment to rise substantially for both the General Fund and the Housing Revenue Account.

A multi-billion pound Balance Sheet supported continued capital investment in the city and the strength of the balance sheet remains a key feature of the Council's financial resilience framework to support its sustainability, and also to support its regulatory requirements of maintaining its credit rating, following the issue of bonds on the London Stock Exchange (LSE) in 2016.

The Housing Revenue Account budgets were set based on a rent freeze for 2022/23 and ongoing pressure from housing waiting lists, which underpinned a commitment to build 2,000 new council homes.

The Common Good budget was set using the investment returns from the land, property and cash held. Additional income was forecast from a new investment of Common Good cash balances with an external fund manager, which was approved by the Council in March 2021. A distribution of approximately £4m for the year covered a range of Council run and externally organised projects and activities.

Financial Performance Reporting and Annual Accounts

This is the final quarterly financial performance report for 2022/23 which meets the requirements of the Council and of the LSE, and provides financial transparency for citizens of the City and beyond.

Having reached the end of the financial year the Council has delivered on its early reporting commitment for each quarter and has again worked to a faster closedown, and early production of the Council's unaudited Annual Accounts, that were presented to Audit and Risk Committee on 11 May 2023. This enabled the external audit to start earlier than would ordinarily be the case. This has continued to be a challenging task, especially given the impact of working arrangements, the scarcity of resources in key areas and the substantial funding streams that continued to be distributed until the year end. To achieve this there has been a focus on ensuring that robust procedures and deadlines were in place and communicated early to staff. The process commenced with the issue of year end instructions in mid November 2022 and officers are working with the auditors to present reports and audited Annual Accounts by 20 July 2023.

2022/23 Financial Position

• General Fund Revenue

The Council has achieved a deficit for 2022/23 of £2.083m against budget, this is shown in the table presented on page 7. This deficit will be funded from the use of earmarked reserves set aside for Covid Resilience. The statutory guidance provided by the Scottish Government to defer the debt charge instalment has been utilised as approved in the budget.

Explanations are provided below (from page 8) for the key variances from budget.

The financial position takes into account the need for the Council to earmark certain sums that are recommended to be earmarked for use in future years, as required by statute or having

arisen from unspent/received in advance grant funding. Further information on reserves and earmarked sums is included in pages 17-18.

• **Housing Revenue Account**

The HRA delivered the budgeted surplus for the year but did not achieve the level of budgeted contribution to capital from revenue. There has been significant spending on Repairs and Maintenance this year with the impact of inflation being particularly prevalent, and in addition the cost of having more void properties resulting in lost rental income has created pressure for contributing funds to capital. The reduction in capital contribution was also affected by the mechanism to enable Scottish Government Capital funding for the 2022/23 pay award to be transferred to the General Fund which meant artificially increasing the HRA surplus by £4.350m by reducing the contribution to capital (the reduction was replaced by the capital grant to fund capital expenditure), this has had no overall impact on the HRA. Removing that transaction, a surplus of £0.5m remains, after earmarking a proportion to support repair and maintenance costs that are yet to be completed, the surplus is added to the Housing Revenue Account working balances. A summary of the HRA is shown on pages 12-13

• **General Fund Capital**

The final position on the General Fund capital programme is provided on page 13, with the final spend for 2022/23 reflecting interim valuations for projects that were on site at 31 March 2023. An underspend has been forecast throughout the year due mainly to a wide range of factors affecting the construction supply chain. Importantly decisions were also taken by Council, following the review of the capital programme last summer, to pause, retender and stop some capital projects due to the financial environment, which also reduced capital expenditure. Differences between actual spend and forecast outturn will result in a realignment of budgets in Quarter 1, 2023/24.

The capital programme has been funded through a number of project specific grants and contributions, general government capital grant and borrowing.

• **Housing Capital**

The final position on the Housing capital programme is provided on page 15, including key project indicators and financial details. The decision was taken by Council to pause, retender and delay some of the new housing sites due to the financial environment. The capital programme has been funded predominantly through contributions from the Housing Revenue Account and borrowing and, for a third year in a row, grant funding to support the new homes programme.

• **Reserves**

Having reached the end of the financial year and as in previous years, a review of the overall position for both revenue and capital, in the context of the Council's Balance Sheet and Reserves Policy has been undertaken and action taken to ensure the Council is suitably prepared for future revenue and capital investment purposes. This has included taking account of the decisions that were made by the Council at the budget setting meeting for financial year 2023/24.

This review has taken cognisance of the impact of adjustments required to ensure compliance with accounting standards, applying new standards and including making judgements and estimates to ensure that the Annual Accounts represent a true and fair view of the Council finances.

Year end adjustments consider the implications of certain conditions such as the statutory provisions of the Capital Fund, HRA, statutory guidance in relation to the Loans Fund, Voluntary Severance / Early Retirement costs and transactions required across the Group.

In certain circumstances, funds are required to be earmarked for use in future years. This can be to fulfil statutory obligations or where funding has been received but not yet been spent. The most significant of these at the end of 2022/23 are Ukrainian & Afghan resettlement grants, Council Tax second/long term empty homes (affordable homes) income, while there is a continued retention of monies to protect the Council from financial guarantees and loans (de-risk the Council). The Council is able to earmark General Fund reserves for purposes that it determines, a significant example is the commitment to the Transformation Fund.

A large part of the earmarked Covid-19 grant funding that was carried forward from 2021/22 has been utilised, including funding the £2.083m operating deficit for the year. This is reflected in the General Fund Reserve. A sum of £7.309m was approved as part of the 2022/23 General Fund budget to be used from earmarked reserves and this too has been fully utilised.

The review of reserves is reflected in the table below that summarise the Council's Usable Reserves at the start and end of 2022/23, and is also shown in more detail in the Reserves section on page 17.

The uncommitted reserves have been maintained at the recommended minimum of £12m, in compliance with the Council approved Reserves 2023 policy.

Subject to any findings and/or adjustments arising from the audit of the Annual Accounts it is requested that committee approve the sums shown on pages 17 and 18 as transfers to and from earmarked reserves.

31 March 2022 £'000	Usable Reserves	31 March 2023 £'000
(72,152)	General Fund	(68,169)
(15,215)	Housing Revenue Account	(15,715)
(20,860)	Statutory and Other Reserves	(29,563)
(108,227)	Total Usable Reserves	(113,447)

• Common Good

The year end position shows an operational underspend of £49k, and details are provided on page 16. This underspend was achieved through increased investment income, generated from the long-term multi-asset income fund investment with Fidelity, cash on deposit with the Council loans fund and investment income received from the Lands of Skene and Lands of Torry Charitable Trusts, after taking account of budgeted and one-off costs.

The value of the underlying investment with Fidelity fell by £3.636m during the year resulting in an additional charge to the Common Good, however this is offset in part due to net capital receipts of £2.338m. All of this means the Common Good has decreased cash balances at 31 March 2023 of £1.567m compared to the value budgeted.

Conclusion

This has been, financially an extremely challenging year with costs rising rapidly and the continued shortfall in income continuing in key areas following the pandemic and financial / economic conditions in Aberdeen. The Council has responded to the challenges by keeping spending to a minimum wherever possible, whilst recognising the huge demand and cost increases that have been managed, including rising school rolls from the influx of families through the resettlement programmes but also from the families joining international students enrolled at the two universities.

Active management of the capital programmes has meant that capital investment expenditure was substantially lower than budgeted in both the General Fund and Housing Programmes despite the ongoing restrictions on construction sites and supply chain volatility. The decisions taken in August 2022 to pause, retender, defer and stop some of the approved projects has made a positive impact on spending and borrowing requirements in 2022/23. That said, during the year construction activity has progressed on a wide range of capital projects with a number being completed during the year, including Union Terrace Gardens, Milltimber School and more new build housing was handed over.

Throughout, the overall financial performance of the Council reflects strong financial management and timely and transparent reporting of the quarterly position and full year position.

General Fund Revenue

Notes	As at 31 March 2023	Budget 2022/23	Actuals 2022/23	Variance (Actual - Budget)	Statutory Adjustments	To Statutory Funds	From Earmarked Reserves	To Earmarked Reserves	Q4 Variance after earmarking	Q3 Variance	Movement from Q3 forecast
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
1	Children & Family Services	228,899	229,546	647				4,543	5,190	6,101	(911)
2	Resources	51,953	68,329	16,376				578	16,954	7,005	9,949
3	Customer	43,263	26,764	(16,500)				14,715	(1,785)	683	(2,468)
4	Commissioning	22,268	23,472	1,204					1,204	2,313	(1,109)
5	Operations	85	85	0					0	9	(9)
6	Integrated Joint Board	116,639	116,639	(0)					(0)	0	(0)
	Total Functions Budget	463,107	464,835	1,728	0	0	0	19,836	21,563	16,111	5,452
7	Miscellaneous Services	64,628	58,496	(6,133)		6,417	(6,417)	86	(6,047)	(10,741)	4,694
8	Contingencies	12,474	(1,784)	(14,258)	738	300		1,700	(11,520)	(2,378)	(9,142)
9	Council Expenses	1,518	1,385	(133)					(133)	2	(135)
10	Joint Boards	1,858	1,671	(187)					(187)	0	(187)
	Total Corporate Budgets	80,478	59,768	(20,711)	738	6,717	(6,417)	1,786	(17,886)	(13,117)	(4,769)
11	Non Domestic Rates	(268,557)	(268,152)	405					405	0	405
12	General Revenue Grant	(135,772)	(135,772)	0					0	0	0
	Government Support	(404,330)	(403,924)	406	0	0	0	0	405	0	407
13	Council Tax	(129,387)	(133,137)	(3,750)				1,751	(1,999)	(901)	(1,098)
	Local Taxation	(129,387)	(133,137)	(3,750)	0	0	0	1,751	(1,999)	(901)	(1,098)
14	Contribution from Reserves	(9,869)	0	9,869			(9,869)		0	0	0
	Contribution from Reserves	(9,869)	0	9,869	0	0	(9,869)	0	0	0	0
15	Deficit/Surplus	0	(12,459)	(12,459)	738	6,717	(16,286)	23,373	2,082	2,093	(9)
16	Group Entity - Accounting Standards Adjustment	0	342	342							
16	Fin Instruments Chg - Accounting Standards Adj		396	396							
17	Adjusted Deficit/(Surplus)	0	(11,721)	(11,721)							
18	Contribution to Statutory Funds	0	6,717	6,717							
19	Contribution from Earmarked Reserves	0	(16,286)	(16,286)							
19	Contribution to Earmarked Reserves	0	23,373	23,373							
20	Deficit/(Surplus) after movement in Earmarked Reserves & Statutory Funds	0	2,083	2,083							

Notes

It should be noted that the full year budgets reflected above differ from those set by Council in March 2022 for a number of reasons.

This was normal practice during the year as virements are identified or additional funding is provided. The main changes in services relate to the allocation of procurement, staff vacancies and savings arising from changes to the staffing establishment as a result of voluntary severance/early retirement which were held within contingencies at the time the budget was set.

The rising cost in gas and electric affected all Council services to some degree. The actual was £6.4m more than had been budgeted, before being offset in part by the centrally held inflation contingency. (Resources £3.298m, Children's & Family £1.728m, Commissioning £0.806m, IJB £0.329m and Customer £0.274m).

1. Children & Family Services is the largest function within Aberdeen City Council with responsibility for delivering key statutory and frontline services to children and young people, adults, families and communities of Aberdeen. This includes the delivery of early years, primary, secondary, special education and children's social work services.

A number of areas of pressure were highlighted throughout the year which have impacted on the final position for the service as follows:

- Retention of teaching staff has continued into 2022/23, teaching vacancies are mainly in secondary schools in subjects that continue to be hard to recruit to, or in demand, for example: Design Technology, Maths, English and some Sciences. This success had the impact of reducing the anticipated savings the Council had corporately assumed and meant that increased spending overall was incurred. Under the approved Devolved School Management scheme uncommitted staff budgets can result in alternative spending on education delivery, such as technology and commissioned services. The commitments made to alternative delivery models but not received by year end have been carried forward to 2023/24. Long term absences spend (£1.167m), has not fallen in 2022/23 due to the retention of staff.
- For Education the service is managing a substantial increase in children that have arrived in the city. This has been unexpected and is driven by two factors: - the post-Covid increase of students from other countries to the two Universities, who are bringing their families with them, this is expected to continue through the forthcoming and future admission cycles, and secondly the number of children (and families) in the city seeking refuge from Ukraine.
- Increased spend on Out of Authority Placements (£1.45m), however this is lower than last years spend and has in part been offset by under spends in Health Resources (£193k), Direct Payments (£111k), Property (£56k) and Admin (£53k).
- Within earmarked reserves Education has carried forward a number of grants, these are for both Afghan and Ukrainian Pupils, these have been committed as part of the Devolved School Management scheme for 2023/24.

Cost pressures were mitigated as far as possible by underspends and cost reductions in other areas of the service.

2. Resources is responsible for the financial planning, monitoring and reporting of the Council. They manage the development of design and delivery of all strands of capital including the city centre masterplan, the schools estates strategy, roads infrastructure and housing. The Corporate Landlord cluster is responsible for the commercial and non-commercial land and property assets, facilities management and council housing stock management. This function is now also responsible for operational services such as waste collection and disposal, facilities management, fleet, building services, environmental services and roads and related infrastructure.

- Primarily the outturn for 2022/23 was affected by an under recovery of income within Commercial Property Trading Account (£10.4m). There continues to be challenging market conditions for the leasing of property in the City and with facilities, including P&J Live, and hotels achieving well below expected levels, such that the budget values during the year have not been met.
- Spend of £1.38m for hard facilities management (property repairs) was incurred by the service due to the price of materials and labour, despite 'wind and water tight' criteria continuing to be applied.
- Building Services did not achieve the budgeted surplus with an under recovery (£2.568m) due to the level of capital works being lower than anticipated, higher costs due to pay and price inflation have increased traditionally stable, fixed costs, which was only reflected in quarter 4. The profile of work has been different this year with void properties and response repairs and maintenance being the priority.
- Car Parking income was severely affected by the pandemic, and whilst it is now recovering it has not achieved the budgeted income.
- There were a number of underspends within the service such as Waste Services (£1.595m) which achieved increased income from third party waste and underspend on the waste contract and had an underspend on rates due to the fire at the Altens East depot. Facilities Management (£838k) mainly School Catering due to over recovery of income.
- Roads was impacted by winter maintenance costs £392k which are ultimately covered by the Council's contingency budget (part of the Corporate budgets) while the pay award being greater than expected but fundamentally was agreed late in the year resulted in missed opportunities to recover some of the cost incurred.

3. Customer is responsible for managing all internal and external customer contact. It brings together housing, libraries, community learning and community safety to support the development of sustainable communities and enable individuals to manage their own lives. Data and Insight also sits within Customer, they are responsible for identifying social, economic and digital trends of the city in the future and how the Council meets these needs. The revenues and benefits teams handling key income streams for the Council, such as Council Tax and Non-Domestic Rates and process almost £50m of housing benefit payments. There is a focus on creating digital services for customers that are easy to use and improving access to services. It is responsible for providing external communications, advice and support to ensure effective communications with external audiences, and to promote the reputation of the Council. This function is also responsible for the selection, retention and development of the Council's staff.

- As referenced in previous reports, there was an under recovery of rental income from Homeless Flats (£457k) however hostel income over recovered by £357k.

- Digital & Technology are experiencing a cost pressure whilst transitioning to new contracts and increasing digital services. Automation budget savings were not achieved this year as they are not aligned to the services to which they relate.
 - Other savings achieved included training £382k, staffing within Community Safety £277k and Localities £137k.
 - Within earmarked reserves Customer is carrying forward the remaining balance of the final Covid-19 grants and £14.66m of one-off funding for the resettlement of Refugees.
4. Commissioning is responsible for both commissioning and procuring the best service/partner to deliver the agreed outcomes. City Growth represents the Council and the City of Aberdeen on local, regional, national and international stages with key responsibilities for outward trade, a diverse employability and skills base, and a focus on tourism, culture and the development of a city events programme. Strategic Place Planning focus is to enable, facilitate and deliver place planning for the City which includes all of the transport, environment, housing, building, planning (which includes community planning) and digital initiatives that will help to deliver major infrastructure projects. Governance includes Legal Services, Democratic Services, Audit, Policy, Emergency Planning and Corporate Health & Safety. Commercial and Procurement drives the shared service with Aberdeenshire and the Highland Councils, and this function is also responsible for managing and monitoring the service-level agreements with the Council's Arm's Length External Organisations (ALEOs).
- Challenges in 2022/23 included being unable to allocate out to the services the procurement budget savings of £1m due to the market position for the majority of goods and services.
 - Museums & Galleries visitor numbers have not increased as expected following the pandemic and the ongoing cost of living crisis, service is experiencing increased costs for events in addition to significant rise in energy costs.
 - Strategic Place Planning have been effected by market conditions which has seen an under recovery in planning & building application fees of £293k.
 - Within earmarked reserves Commissioning have carried forward the final balance of covid grant for FWES Employability Fund (£1.684m).
5. Operations. This function contains the salary costs of the Chief Operating Officer who left the post during 2022/23
6. Integration Joint Board (IJB) / Adult Social Care is responsible for the provision of health and social care services to adults, with the expenditure incurred being on services which the IJB has directed the Council to deliver on its behalf such as the provision of care to the elderly, support to adults with support needs and criminal justice services.

The Integrated Joint Board is funded by the Council and the NHS and the cost of services delivered by the Council is significantly more than the Council contributes, resulting from the funding being allocated through the NHS financial settlement in prior years for Social Care services and demands. This means that there is funding allocated by the IJB to the Council that has come from the NHS contribution to the IJB.

The cost pressures around demand and need, particularly in relation to supporting complex needs and accommodation for those with learning disabilities and needs led home care and accommodation for mental health and also substance misuse client, were managed by the IJB during the year and are met by IJB funds.

In 2022/23 there was an overspend of £1.096m on the Health and Social Care Partnership budget which was funded from JJB reserves.

7. Miscellaneous Services includes capital financing costs, the cost of repaying the borrowing required in the past for General Fund Capital Programme investment, audit costs and the provision for doubtful debts.

Capital Financing Costs is the most significant budget within Miscellaneous Services, and includes the impact of accounting requirements in relation to the Council's Bond Issue, and the annual changes in the level of external borrowing.

In 2022/23 the Council utilised the Scottish government statutory guidance that allows the deferral of one year's debt instalment. The instalment will be repaid over the next 20 years. Interest on the full outstanding balance will continue to be paid.

The actual charges for 2022/23 take account of the approved treasury and investment policy that delivers a prudent approach to capital financing, and the interest rate applicable to the debt. The significantly reduced capital expenditure in 2022/23 assisted to reduce costs in 2022/23, with a transfer of money being made to the Capital Fund to fund capital expenditure that has been delayed.

The provision for doubtful debt has produced an underspend at year end. This is as a result of the Council recommencing debt recovery procedures after a pause in procedures due to the impact of Covid-19 pandemic and the Council has benefited from the collection activity.

Annually the Council must make financial provision for circumstances that might arise from current operations and a full review has been carried out and suitable provisions made where there is likelihood of the event happening and there is the ability to estimate a value. The miscellaneous services budgets reflects the impact of the review and if the matter is less likely and the value cannot be estimated then these have been included in contingent liabilities.

8. Contingencies hold budgets that enable the Council to plan and address known/expected costs in-year without relying on the Usable Reserves held by the Council.

The value of contingencies not needed in the year – after covering costs such as additional winter maintenance costs, provided a positive variance for the overall Council position.

9. Council Expenses this represents the cost of councillors. While it is not showing a significant variance, there has been less expenditure on travel during the year.

10. Joint Boards represents the amount requisitioned by Grampian Valuation Joint Board which is known during the year, the underspend was created as the Board agreed in Quarter 4 to refund the 2021/22 surplus to the three Councils.

11. Non-Domestic Rates this is the value guaranteed by the Scottish Government rather than the value collected by the Council, as this is in line with the accounting practice. The cost to the council being the value of discretionary relief that is shared between the Scottish Government and the Council.

12. General Revenue Grant in line with the Scottish Government Finance Circular which has been redetermined at the year end and funding paid in relation to announcements during the year.
13. Council Tax this takes account of the total value of council tax for the year, along with any adjustments for prior years that have to be accounted for. The total value is higher than had been budgeted, as collection rates were higher than anticipated.

From the value of Council Tax collected a sum (£1.751m) must be set aside for the purpose of funding affordable housing projects. This is then added to the earmarked sum in the General Fund Reserve.

The overall value attributable to the General Fund budget for 2022/23 ended the year as had been forecast at Quarter 3.
14. Contribution from reserves this represents the sum of funding to be received from reserves to reflect a balanced budget approved at Council on 7 March 2022 and updated to take account of the Capital funding being transferred through the HRA Reserves. The actual is included along with the contribution from earmarked sums.
15. General Fund Deficit/(Surplus) before adjustments is the value of all expenditure and income incurred during the year that compares to budget. This is before the group entity and financial instruments adjustment required per accounting standards, and the transfer of funds to and from the General Fund Earmarked Reserves.
16. Group Entity & Financial Instruments – Accounting Standards adjustment this reflects the change in value of the group entity investment (Aberdeen Sports Village), measured annually, and a charge for the total redemption premium for 2022/23. These are both chargeable to the General Fund.
17. Adjusted deficit/surplus this is the general fund surplus adjusted for item 16.
18. Contributions to Statutory Funds this represents the total value of sums transferred to funds such as the Capital Fund and Insurance Fund, which are reviewed annually to ensure appropriate value is retained at year end.
19. Contributions to/from Earmarked Reserves are the values that have been used during the year, or are to be set aside for future years and are reviewed annually with reference to statutory and regulatory requirements, Council commitments and policy. Further information is included about which Earmarked Reserves are affected on page 17.
20. Deficit/(Surplus) after movement in Earmarked and Statutory Funds shows the overall position for the General Fund for the year, against a balanced budget, an overspend of £2.083m. The overspend balance will be funded from the Council's Covid-19 resilience earmarked funds at 31 March 2023

Housing Revenue Account

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 capital financing costs for debt borrowed to fund capital investment in the

housing stock. This is a ring fenced account such that its costs must be met by tenants' rental income.

Housing Revenue Account as at 31 March 2023	Budget 2022/23 £'000	Actual 2022/23 £'000	Variance £'000
Net Surplus from Income & Expenditure	(500)	(4,850)	(4,350)
Internal Transfer of SG Funding to General Fund for Pay	0	4,350	4,350
Total Surplus from Income & Expenditure	(500)	(500)	0

The HRA delivered a surplus of income over expenditure during the year, as budgeted. There were variances during the year that together enabled the surplus to be generated, which included the reduced cost of capital financing during the year, the result of lower capital spending and additional capital grants. A reduced level of contribution to be made from revenue to pay for capital (CFCR), which amounted to £10.3m due to the level of over spend in principally repairs and maintenance and voids. Funding the cost of capital from revenue avoids the need to borrow therefore it is likely the reduced contribution will result in higher future capital financing costs.

General Fund Capital Programme

As at Period 12 2022/23	2022/23		
	Revised Budget for Year	Actual Expenditure for Year	Actual v Budget Variance
	£'000	£'000	£'000
AECC Programme Board	4,108	3,968	(140)
Asset Management Programme Board	64,383	44,296	(20,087)
Asset Management Programme Board Rolling Programmes	33,020	17,331	(15,689)
City Centre Programme Board	40,353	19,926	(20,427)
Energy Programme Board	57,126	28,407	(28,720)
Housing and Communities Programme Board	1,244	323	(921)
Housing and Communities Programme Board Rolling Programmes	998	844	(154)
Transportation Programme Board	23,704	9,441	(14,262)
Transportation Programme Board Rolling Programmes	1,874	1,539	(335)
Strategic Asset & Capital Plan Board	12,067	1,696	(10,371)
Strategic Asset & Capital Plan Board Rolling Programmes	1,881	3,480	1,599
Developer Obligation Projects & Asset Disposals	0	783	783
Total Expenditure	240,757	132,033	(108,725)
Capital Funding:			
Income for Specific Projects	(64,115)	(31,597)	32,518
Developer Contributions	0	(784)	(784)
Capital Grant	(24,020)	(19,468)	4,552
Other Income e.g. Borrowing	(152,622)	(80,183)	72,439
Total Income	(240,757)	(132,033)	108,725

The supply chain disruption which began during the Covid-19 Pandemic continued in 2022/23 and is reflected in the total £132 million investment recorded for the Capital Programme for the year. The Construction Industry continued to experience shortages of products, raw materials, staffing and logistical support across the UK, compounded by the largest increase in energy prices seen in recent years. The Russian invasion of Ukraine in February 2022 and resulting

economic sanctions placed on Russia and Belarus also exacerbated supply chain issues for some commodities which were sourced from eastern Europe.

Despite the continued and emerging challenges faced this year, progress was made on a range of projects, including several that support the Council's Net Zero Vision:

- The Council's joint venture arrangement with bp progressed the design for the City's new Hydrogen production Hub to facilitate expansion of the Council's hydrogen fuelled fleet
- The Council took delivery of an additional 10 hydrogen double decker buses and continued dual fuel retrofitting of existing Council vehicles.
- Construction progressed on the joint Ness Energy from Waste facility, a project being carried out in collaboration with Aberdeenshire and Moray Councils, to avoid waste being sent to landfill in future and use those resources for the production of electricity, and heat for the Torry Heat Network. The facility achieved the first test burning of waste on 31 March 2023.
- The Council's Local Transport Strategy advanced design and land acquisition works for the Berryden corridor, and commenced the dualling of South College Street, for improved connections to the City Centre. The Bus Partnership Fund also supported the development of business cases on the City's other main transport corridors. Implementation works also continued for the City Centre Low Emissions Zone (LEZ).
- The City Centre Masterplan continues to invest in Aberdeen; Union Terrace Gardens was re-opened following redevelopment; further land assembly and enabling works advanced for the redevelopment of Queen Street; and major new design principles were progressed for the redevelopment of Aberdeen Market, Union Street, and connections to the City's Beachfront.
- Construction commenced on the new North East Scotland Shared Mortuary in Aberdeen, a multi-agency project with local public sector partners.
- Digital Connectivity has also been enhanced through the City Region Deal by continued investment and expansion of the City's fibre network, alongside accelerated investment in Intelligent Street Lighting to compliment the investment in Street Lighting LED lanterns.
- The Council continued its commitment to its New Schools and Early Learning programmes. The new Milltimber Primary was completed in May 2022, and the new Countesswells Primary in March 2023. Works on the new Torry Primary and Community Hub are progressing on site, and contracts have been let for the new Tillydrone Primary. The Council approved funding for the progression of the updated School Estate Plan at its budget meeting on 1 March 2023.

The impact on the funding of the Capital programme is that there was a lower borrowing requirement in 2022/23 than originally expected.

Ongoing scrutiny and monitoring of the various Capital projects were transferred from the Capital Programme Committee to the Finance and Resources Committee under the new Committee structure approved by Council in August 2022 .

Housing Capital Programme

Housing Capital Programmes	Approved Budget	Expenditure to date	Variance
As at 31 March 2023	£'000	£'000	£'000
Compliant with the tolerable standard	1,590	367	(1,223)
Free from Serious Disrepair	12,859	4,135	(8,724)
Energy Efficient	9,655	7,563	(2,092)
Modern Facilities & Services	5,277	2,257	(3,020)
Healthy, Safe and Secure	8,796	4,821	(3,975)
<i>Non Scottish Housing Quality Standards</i>			
Community Plan and Local Outcome Improvement Plan	6,225	3,885	(2,340)
Service Expenditure	4,783	636	(4,147)
2000 New Homes Programme	138,698	88,145	(50,553)
less 11% slippage	(5,410)	0	5,410
Net Programme	182,473	111,809	(70,664)
Capital Funding			
Borrowing	(131,425)	(72,252)	92,340
Other Income - Grants Affordable Homes etc	(35,074)	(33,961)	(18,000)
Capital Funded from Current Revenue	(15,974)	(5,596)	(3,676)
Total	(182,473)	(111,809)	70,664

As detailed above in the General Fund Capital programme the Housing Capital programme experienced similar issues from the resulting supply chain challenges including delays and price increases.

Progress has been delayed in areas which involve mixed ownership within Free from Serious Disrepair such as structural improvements within the multi storeys and flat roofs (multis and general). Prioritisation of work on voids has continued which has shifted resources from capital to revenue works during the year. This has resulted in lower than budgeted spend on lift maintenance, heating system replacement, kitchens and bathrooms, and the programme which wasn't delivered in 2022/23 has been rolled forward into 2023/24.

The 2,000 new homes programme is progressing well with further homes at the Auchmill and Summerhill sites being handed over to the Council in 2022/23. The programme in 2022/23 has included developer led projects such as Auchmill and Cloverhill in Bridge of Don, Council led projects such as Kaimhill, Tillydrone and Summerhill with work on Craighill and Kincorth currently being suspended, and buying former Council Homes. Grant funding of £30m was received from the Scottish Government for Craighill, Tillydrone, Kincorth, Kaimhill, Cloverhill, Uranian Voids and Clinterty redevelopment.

Common Good

As at 31 March 2023	Full Year Budget 2022/23	Actual Expenditure	Variance from Budget
	£'000	£'000	£'000
Recurring Expenditure	3,336	3,398	62
Recurring Income	(4,431)	(4,960)	(528)
(Income)/Expenditure after Recurring Items	(1,095)	(1,562)	(467)
Non Recurring Expenditure	776	1,598	822
Non Recurring Income	0	(86)	(86)
Net (Income)/Expenditure	(319)	(49)	270
Cash balances as at 1 April 2022	(38,633)	(38,633)	0
Net (Income)/Expenditure	(319)	(49)	270
Investment Revaluation (Increase)/Decrease	0	3,636	3,636
Net Capital Receipt	0	(2,338)	(2,338)
Cash Balances as at 31 March 2023	(38,952)	(37,385)	1,567

The Common Good Fund is showing an operating surplus of £49k for the year, an adverse variance from budget of £270k for the year to 31 March 2023.

This was due to increased income from investments, being investments with Fidelity, the Council's Loans Fund and the two Charitable Trusts.

Expenditure on a number of one-off projects and activities, where the approved expenditure has not been fully spent will be carried forward as an earmarked reserve to enable works to continue in the next year.

The demolition costs of the building at Lang Stracht incurred one-off expenditure of £797k in year and these have been included in the Non-Recurring Expenditure row.

The investment of cash balances in a multi-asset income fund, approved by Council on 10 March 2021 was implemented in 2021/22. The fund manager, Fidelity, was selected as reported in the quarter 1 report and investment of £30m was made during Quarter 2. As an income fund it preformed well, with cash received for the period to 31 March 2023 ahead of budgeted levels, producing a positive variance for recurring income.

Seeking increased annual income comes with additional risk and therefore there is volatility in the value of the fund into which the Common Good is invested. The value of the investment may fall as well as rise and should be measured over the medium to long term. With financial markets particularly volatile over the past year the value at the end of Quarter 4 of the Common Good investment fell by £3.636m to £24.145m. This is shown separately in the table above, where either the value of a rise or fall in value must be accounted for annually.

During the year additional capital income to the value of £2.338m was received from the ongoing Pinewood deal where the land is to be paid for over a number of years, and the sale of land at South Square.

Reserves

General Fund Earmarked Reserves	Balance at 31 March 2022 £'000	Transfers In 2022/23 £'000	Transfers Out 2022/23 £'000	Balance at 31 March 2023 £'000
Devolved Education M'ment (Comm Centres)	(542)	0	20	(522)
Devolved Education M'ment (School Funds)	(680)	(274)	680	(274)
Energy Efficiency Fund	(1,277)	(174)	176	(1,275)
Bus Lane Enforcement	(503)	0	209	(294)
Property Transfer	(102)	0	0	(102)
Second/Long Term Empty Homes	(13,110)	(1,751)	4,129	(10,733)
De-risk the Council	(5,614)	0	0	(5,614)
Transformation Fund	(4,433)	0	546	(3,887)
Contribution to Environmental Body	(43)	0	43	0
Repairs & Maintenance Fund	(399)	0	60	(339)
Public Analyst - James Hutton Institute	(125)	0	125	0
Rapid Rehousing Transition Plan	(311)	0	41	(270)
Co Op Business Development Fund	(75)	0	0	(75)
ADM - Education	(742)	(514)	319	(937)
Budget Use of Reserves	(7,309)	0	7,309	0
Care Experienced Y.P WIFI (CSW)	(23)	0	10	(13)
Neurodevelopment Specification (CSW)	(292)	0	126	(166)
Tree Works - Storm Damage	(476)	0	333	(143)
Additional Teaching - Recovery Funding	(408)	0	408	0
Implem of National Trauma Training Prog	(50)	0	0	(50)
Scottish Disability Assistance	(31)	0	31	0
Mental Health Recovery & Renewal	(107)	0	0	(107)
Conservation funding	(2)	0	2	0
Targeted Learning funding	(25)	0	25	0
Seed Funding - Comm Bens Plan for H2 JV	(1,000)	0	337	(663)
Telecare Fire Safety	(38)	0	38	0
Whole family wellbeing	(90)	0	55	(35)
FWES Employability	(1,685)	0	0	(1,685)
Afghan - Bridging Accomodation	(681)	0	101	(580)
Syrian Refugees (UKRS Scheme)	(723)	0	69	(654)
Afghan Education	(148)	(421)	81	(487)
Scottish Child Payment	(31)	(27)	31	(27)
Unknown General Fund Surplus	(60)	0	60	0
Coastal Communities Fund	0	(134)	0	(134)
Family Wellbeing (Partnership)	0	(979)	0	(979)
Counsellors Through Schools	0	(485)	0	(485)
Easter in the City	0	(59)	0	(59)
Recycling and environmental initiatives in schoo	0	(150)	0	(150)
Fuel Poverty Assistance Fund	0	(111)	0	(111)
Marischal Square	0	(1,700)	0	(1,700)
Corporate Landlord - Education Security Costs	0	(61)	0	(61)
20mph Road Assessment	0	(58)	0	(58)
Afghan Funding	0	(1,458)	0	(1,458)
Ukrainian Education Funding	0	(1,720)	0	(1,720)
Ukrainian Tariff	0	(13,146)	0	(13,146)
COVID Grants	(19,016)	(151)	11,991	(7,175)
Total General Fund Earmarked Reserves	(60,152)	(23,373)	27,355	(56,169)
Uncommitted General Fund Balance	(12,000)			(12,000)
Total General Fund Balance	(72,152)	(23,373)	27,355	(68,169)

HRA Earmarked Reserves	Balance at 31 March 2022 £'000	Transfers In 2022/23 £'000	Transfers Out 2022/23 £'000	Balance at 31 March 2023 £'000
Projects:				
Housing Repairs	(2,481)	(2,278)	2,481	(2,278)
House Sales - Non Right to buy	(308)			(308)
Total HRA Earmarked Reserves	(2,789)	(2,278)	2,481	(2,586)
Uncommitted HRA Balance	(12,426)	(703)		(13,128)
Total Housing Revenue Account	(15,215)	(2,981)	2,481	(15,714)
Recommended Uncommitted Balance	(9,463)			(9,577)

Common Good Earmarked Reserves	Balance at 31 March 2022 £'000	Transfers In 2022/23 £'000	Transfers Out 2022/23 £'000	Balance at 31 March 2023 £'000
Projects:				
Grove Nursery	(62)		35	(27)
Culter Playing Fields	(5)		0	(5)
Smithfield Farm - Roof repairs	(18)		0	(18)
APA - Music Hall Cleaning	(5)		5	0
AWPR Drainage Issues for future issues	(35)		0	(35)
CPR Training	(4)		0	(4)
Mental Health	(3)		3	0
Camphill Rudolph Steiner	(10)		10	0
Aberdeen Multicultural Centre	(15)		15	0
City Centre Clean	(21)		21	0
Denis Law Trail	(20)		0	(20)
Lord Provost Portrait	(10)		0	(10)
Friends of Jacob Ladder	0	(4)	0	(4)
Ukraine Refugee Support	0	(25)	0	(25)
Winter Clothing Grant	0	(7)	0	(7)
Torry Development Trust	0	(3)	0	(3)
Total Common Good Earmarked Reserves	(207)	(38)	89	(157)
Uncommitted Common Good Balance	(38,426)		1,198	(37,228)
Total Common Good	(38,633)	(38)	1,287	(37,385)