



**FINANCIAL STATEMENT  
FOR THE PERIOD ENDING  
30 SEPTEMBER 2023**

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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 6-month period to 30 September 2023.

Combined with Appendix 2, it also provides an insight into the expected financial performance for the remainder of the financial year 2023/24, the challenges we face and how we will address these challenges to provide stability, financially, thus allowing our citizens to have confidence that we can continue to provide the diverse portfolio of services on which they rely. Appendices 3 and 4 present the latest information in relation to the Common Good and Group entities.

## Background

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

Moody's (the credit rating agency) published their latest credit rating assessment of the Council on 25 October 2023 with a rating of 'A2 with a stable outlook', which was a downgrade (from A1 with a negative outlook) of one 'notch'. This was the consequence of a review of the whole sub-sovereign sector on 25 October 2023, which had followed Moody's rating action on 20 October 2023 in respect of the UK Sovereign rating (Aa3, Stable outlook). The downgrade reflects Moody's view that, the fiscal flexibility of local authorities in both England and Scotland has materially deteriorated due to consistently high expenditure pressures and funding levels that do not keep pace with both cost inflation and demand. As substantial cuts have been implemented across the sector over the past decade, there is limited scope for further cuts without significant deterioration of services to a point that would be politically infeasible. At the same time, Moody's considers that more generous funding settlements for the sector are unlikely given the UK government's commitment to fiscal prudence. Consequently, Moody's anticipates that gross operating balances will decline over the medium term for most local authorities in the UK. The formal annual review of the Council credit rating is expected to be carried out in December, and will be reported to Committee thereafter.

The Council's independent external auditors, Audit Scotland finalised the audit of the 2022-23 Annual Accounts, and these were signed in second quarter. They were approved at a special meeting of Audit, Risk & Scrutiny Committee on 15 August 2023. As shown in the final accounts the outturn position achieved as at 31 March 2023 was in line with forecasts, carrying forward a large value of grant funding for Covid pandemic recovery, Capital Grant funding and dispersal and settlement of people from Ukraine, Syria and Afghanistan. While the balance sheet was therefore underpinned by substantial Usable Reserves most of this is allocated toward supporting specific activities and hence the importance of in-year recurring funding that underpins core services.

As at 1 April 2023 the Council held Usable Reserves of £156 million and had a Net Asset Value of £1.5 billion.

The Council set its 2023/24 budgets on 1 March 2023, 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 5% and agreement to use fiscal flexibilities, but fundamentally will rely on reducing staff costs, through voluntary processes – attrition and voluntary severance and early retirement opportunities.

The General Fund budget took account of a range of pay and price inflation pressures, in particular the pay award of c.3%, which was broadly in line with other Councils in Scotland but was considerably lower than the increase that had been claimed by Trade Unions.

The teachers' pay award for 2023/24 has been agreed and is funded in part by an increase in Scottish Government grant, with additional funding also underpinning the current offer from Cosla to the non-teaching Trade Union pay bargaining groups. Strike action has been carried out during the second quarter and a final revision to the offer was put to unions on 3 November 2023, which aims to conclude the pay negotiations for all remaining bargaining groups.

Proposals to make use of the Scottish Government approved fiscal flexibility to restructure the service concession payments, to manage the cost of voluntary severances and early retirements, were included in the budget and will be implemented during 2023/24.

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 and pupil support numbers across Scotland.

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

Whilst the rate of inflation fell slightly in August 2023, the situation remains critical as high inflation is impacting on the costs of supplies and services, fuel, and energy.

As a result of the turmoil in the financial markets in 2022/23 there 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 in September 2022 to rates not seen since 2007, as at 30 September the borrowing rates have not returned to the low levels experienced in recent years and are similar to those in 2011/12. On the other hand cash balances are securing additional interest from short term investments and this is helping to offset a proportion of in-year costs.

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

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 future 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 at the Council meeting on 1 March 2023 there was a rent increase of 4% agreed.

## Our Financial Performance: General Fund

### Performance in Quarter 1

In March 2023, the Council set its General Fund and Housing Revenue Account (HRA) revenue and capital budgets for the financial year 2023/24. Performance for the year is measured against these budgets with the projected full year position considered in Appendix 2 of this report. This section focuses on the actual financial results for the period from 1 April to 30 September 2023 presented in the format of our Annual Accounts on pages 7 to 14.

#### Staffing Costs:

As part of our 2023/24 budget, it was recognised that our payroll bill needed to reduce. The levers to deliver this was mainly turnover and through our current Voluntary Severance and Early Retirement (VSER) policy. Importantly managers are supported to redesign services with a reduction of resources as well as looking at automation and process improvements to remove work.

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

The evidence and experience so far this year is reflected in additional spending across services but may not yet be obvious, in part because the pay award for non-teaching staff has not yet been agreed therefore expenditure on a very large element of the budget is substantially lower to this point, backdated costs attributable to Quarter 1 will in due course increase the total cost.

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. Children's and Family Service

Although at 46% against the full year budget the service is forecasting a significant overspend for the full year. Pressure in respect of the cost of providing education to rising numbers of pupils and children's social work services, including Out of Authority placements (OOA) are being identified as ongoing challenges.

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

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

#### 2. Resources

At 30% against the full year budget, the function's net expenditure for the year is below budget. The function has a budget where a significant proportion relates to capital projects therefore variances occur throughout the year depending on when project work is carried out. Within the function there are ongoing concerns regarding the cost of materials and parts in Fleet Services which are the subject of inflationary pressures and lower than expected income for car parking.

### 3. Customer

At 50% against the full year budget, the function's net expenditure for the year to date is on budget. Across the function most services are showing small underspends at this stage of the year, concern regarding the cost of temporary accommodation is of greatest significance.

### 4. Commissioning

At 51% against the full year budget, the function's net expenditure for the year is slightly above budget. This relates to under recovery of income for building & planning applications as well as overspends on staffing all of which has been reflected in the full year outturns.

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

The function's net expenditure is 53.98% which is slightly above budget due the costs of care.

### 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, and when needed.

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

### 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 37% of full year budget. As the Scottish Government hold the financial risk of NDR not delivering the total value across Scotland, a shortfall in cash against the amount has been guaranteed will be topped up at the end of the financial year. This is an adjustment to the Council's General Revenue Grant.

As at quarter 2 income from Council Tax is forecast to be on budget for the full year based on the income levels achieved last year.

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 2024.

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 2023/24, 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 1**

**8. Housing Revenue Account (HRA)** responsible for the provision of council housing to over 22,000 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 2 because the capital financing charges have yet to be charged through the account. There continues to be significant spending on Repairs and Maintenance this year with the impact of inflation being particularly prevalent. The loss of income arising from voids continues 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**

The balanced budget for 2023/24 takes into account using fiscal flexibility to manage the cost of some long-term debt and places a great deal of emphasis on managing the cost of staff resources down. Transformation, as well as tried and tested means of managing staff turnover and offering voluntary severance and early retirement are being used to achieve these savings.

The impact of the pandemic and other global events, the Russian invasion of Ukraine, commodity prices and inflation and continue to have an effect on the Council, and this means 2023/24 still looks very uncertain, with the spectrum of difficulty increasingly widening as time passes.

Continuing risks, not seen on the same scale for decades are inflation levels and supply chain volatility. These made a large impact on the Council's finances in 2022/23 and persist into 2023/24, with utility cost increases, forecasts for the year remaining high.

Spend levels are forecast to be high in certain areas of the budget that will be familiar in respect of children and education services, and there is high recruitment and retention of teachers in schools to support higher school rolls, which is leading to much lower forecast levels of savings from staff turnover than had been expected. The school roll forecasts for August indicated a further rise, this took into account continuing numbers of international students moving to Aberdeen with their families, and the impact of dispersal and resettlement schemes, this will be reviewed in quarter 3 following the figures in the September census.

An emerging cost pressure locally is homelessness, with the need for and value attributed to temporary accommodation being considerably increased this year.

During the remainder of the year the Council will continue to act to reduce spending while reviewing and assessing the changes that the local financial environment has brought about and will re-evaluate the position to ensure that expenditure and income is being monitored and managed as required, taking appropriate action when required. The next reporting period will be Quarter 3, which will be prepared for Finance & Resources Committee on 30 January 2024.

## 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 2023 brought forward</b>	<b>(85,928)</b>	<b>(15,715)</b>	<b>(29,635)</b>	<b>(24,266)</b>	<b>(155,544)</b>	<b>(1,345,337)</b>	<b>(1,500,882)</b>
<b>Movement in Reserves during 2023/24</b>							
Total Comprehensive Income & Expenditure	(146,610)	(26,350)	0	0	<b>(172,959)</b>	0	<b>(172,959)</b>
Adjustments between accounting basis & funding basis under regulations	20,353	19,154	0	0	<b>39,507</b>	(39,507)	<b>0</b>
<b>Net (Increase)/Decrease before Transfers to Reserves</b>	<b>(126,256)</b>	<b>(7,196)</b>	<b>0</b>	<b>0</b>	<b>(133,452)</b>	<b>(39,507)</b>	<b>(172,959)</b>
Transfers to/from Reserves	(6,013)	0	6,013	0	<b>(0)</b>	(0)	<b>(0)</b>
<b>(Increase)/Decrease in Year</b>	<b>(132,269)</b>	<b>(7,196)</b>	<b>6,013</b>	<b>0</b>	<b>(133,452)</b>	<b>(39,507)</b>	<b>(172,959)</b>
<b>Balance at 30 September 2023</b>	<b>(218,197)</b>	<b>(22,911)</b>	<b>(23,622)</b>	<b>(24,266)</b>	<b>(288,996)</b>	<b>(1,384,845)</b>	<b>(1,673,841)</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 2 2023/24			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	121,382	0	121,382	1
Operations	0	(13,718)	(13,718)	2
Customer	20,786	0	20,786	3
Commissioning	9,520	0	9,520	4
Resources	27,720	0	27,720	5
Integration Joint Board	65,192	0	65,192	6
Corporate	13,263	(270)	12,993	7
<b>Net Cost of General Fund Services</b>	<b>257,864</b>	<b>(13,988)</b>	<b>243,876</b>	
Housing Revenue Account	(7,196)	(1,975)	(9,170)	8
<b>Net Cost of Services</b>	<b>250,668</b>	<b>(15,963)</b>	<b>234,705</b>	
Other Income and Expenditure	(384,120)	(23,545)	(407,665)	9
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(133,452)</b>	<b>(39,507)</b>	<b>(172,959)</b>	
Opening General Fund and HRA Balance at 31 March 2023	(101,643)			
(Surplus) or Deficit on General Fund and HRA Balance in Year	(133,452)			
To/From Other Statutory Reserves	(6,013)			
<b>Closing General Fund and HRA Balance at 30 September 2023</b>	<b>(241,108)</b>			

## Notes

1. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter
2. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £13.718m 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.
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. There are no accounting adjustments relating to this service in this quarter.
7. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £0.270m accounting adjustment relates to CFCR.

8. See page 3 for information relating to Net Expenditure chargeable to the Housing Revenue Account. The £1.975m accounting adjustment relates to CFCR.

9. See page 4 for information relating to Net Expenditure chargeable to the General Fund. The £23.545m adjustment comprises the following three elements, which realign costs from other parts of the budget:

£8.386m 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.

(£0.396) m that is the allocation of the Marischal Square finance lease payment.

(£31.535) 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 2, 2023/24			Notes
	Gross Expenditure	Gross Income	Net Expenditure	
	£'000	£'000	£'000	
Children & Family Services	139,103	(17,720)	121,382	
Operations	(13,718)	0	(13,718)	
Customer	50,346	(29,559)	20,786	
Commissioning	17,590	(8,069)	9,520	
Resources	94,433	(66,713)	27,720	
Integration Joint Board	90,556	(25,364)	65,192	
Corporate	8,836	4,156	12,993	
<b>Cost of General Fund Services</b>	<b>387,145</b>	<b>(143,270)</b>	<b>243,876</b>	
Housing Revenue Account	46,907	(56,078)	(9,170)	
<b>Cost of Services</b>	<b>434,053</b>	<b>(199,348)</b>	<b>234,705</b>	
Other Operating Expenditure	0	0	0	1
Financing and Investment Income and Expenditure	47,742	(45,416)	2,326	2
Taxation and Non Specific Grant Income	0	(409,991)	(409,991)	3
<b>(Surplus) or Deficit on Provision of Services</b>	<b>481,795</b>	<b>(654,754)</b>	<b>(172,959)</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>(172,959)</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 2023 are based on the Council's audited Annual Accounts 2022/23.

31 March 2023 £'000		30 September 2023 £'000	Note
2,610,218	Property, Plant & Equipment	2,716,159	1
199,723	Heritage Assets	199,723	1
169,883	Investment Property	169,883	1
28,219	Long Term Investments	28,219	2
498	Long Term Debtors	1,823	3
<b>3,008,541</b>	<b>Long Term Assets</b>	<b>3,115,807</b>	
76,078	Cash and Cash Equivalents	32,995	4
11,588	Short Term Investments	33,297	5
146,275	Short Term Debtors	118,508	6
4,312	Inventories	33,244	7
3,150	Assets Held for Sale	3,150	8
<b>241,403</b>	<b>Current Assets</b>	<b>221,194</b>	
(306,405)	Short Term Borrowing	(273,866)	9
(156,365)	Short Term Creditors	(111,267)	10
(5,354)	Short Term Provisions	(6,041)	11
(5,332)	PPP Short Term Liabilities	(4,308)	12
(7,948)	Accumulated Absences Account	(7,948)	13
(4,235)	Grants Receipts in Advance - Revenue	(1,871)	14
(493)	Grants Receipts in Advance - Capital	(851)	14
<b>(486,132)</b>	<b>Current Liabilities</b>	<b>(406,152)</b>	
(1,064,341)	Long Term Borrowing	(1,064,595)	15
(56,445)	Finance Lease	(56,011)	16
0	Long Term Creditors	0	17
(1,986)	Long Term Provisions	(551)	11
(120,706)	PPP Long Term Liabilities	(116,398)	12
(19,452)	Pension Liabilities	(19,452)	18
<b>(1,262,930)</b>	<b>Long Term Liabilities</b>	<b>(1,257,007)</b>	
<b>1,500,882</b>	<b>Net Assets</b>	<b>1,673,841</b>	
	Usable Reserves:		
(85,928)	General Fund Balance	(218,197)	19
(15,715)	Housing Revenue Account	(22,911)	19
(29,635)	Statutory and Other Reserves	(23,622)	19
(24,267)	Capital Grants and Receipts Unapplied	(24,266)	19
(1,345,337)	Unusable Reserves	(1,384,845)	20
<b>(1,500,882)</b>	<b>Total Reserves</b>	<b>(1,673,841)</b>	

## Balance Sheet Notes

1. Depreciation is calculated annually and therefore no depreciation has been applied in Quarter 2. Capital expenditure to the end of Quarter 2 totalling £105.940m has been applied to Property, Plant & Equipment (this includes £50.914m of general fund expenditure and £55.026m of HRA expenditure). Disposals, revaluations, and transfers have not been accounted for in Quarter 2.
2. Long Term Investments comprises the council's interest in Aberdeen Sports Village and Hydrogen Hub.
3. Long term debtors reflect the movement based on transactions for the period.
4. Cash and cash equivalents include short term investments of £32.553m (because they can be called up at short notice i.e. 0 to 35 days) and developer's contributions of £28.821m. See the cash flow statement for an analysis of how this is used.
5. Short term investments have been adjusted as described in Note 4.
6. Short term debtors reflect the movement based on transactions for the period.
7. Inventories are adjusted at year end for inter-related account balances.
8. Assets held for sale reflect the position at March 2023. This will be reviewed in Quarter 4.
9. Short term borrowing reflects the current position based on transactions for the period.
10. Short term creditors reflects the current position based on transactions for the period.
11. Short term provisions reflects the current position with an adjustment to split this total into long and short term provisions based on year-end figures. This split will be updated in future quarters.
12. PPP short and long-term liabilities has been adjusted to reflect the projected position at March 2024.
13. The accumulated absences account is reviewed annually and will therefore be updated in Quarter 4.
14. The grants received in advance totals reflect the position at the end of Quarter 2.
15. Long term borrowing reflects the current position based on transactions for the period.
16. Finance Lease reflects the closing position as at March 2024.
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 2 2023/24</b>
	<b>£'000</b>
Net Surplus or (Deficit) on the provision of services	172,959
Adjust net surplus or deficit on the provision of services for non cash movements	(19,240)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(31,535)
Net cash flows from Operating Activities	122,184
Net cash flows from Investing Activities	(127,650)
Net cash flows from Financing Activities	(37,617)
Net increase or decrease in cash and cash equivalents	(43,083)
Cash and cash equivalents at the beginning of the reporting period	76,078
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>32,995</b>
Cash held by the Authority	25
Bank current accounts	32,970
	<b>32,995</b>

## **Contingent Liabilities**

In addition to amounts recognised on the Balance Sheet, the Council is aware of the following contingent liabilities at 30 September 2023:

### **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.

### **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 2023/24. 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 now online 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 Finance & Resources Committee. This is a risk which may crystalize in the current housing market conditions due to high supply costs and reduced supply of labour.

The inherent risk with all developer obligation funded projects is whether the build rate of the development is triggering financial contributions at the rate required to fund the Council projects involved. Where the Council project advances more quickly than the development, the Council may have to step in to “cashflow” the necessary funding requirement. Where a project has not been legally committed, a failure to receive the supporting developer obligation funding may require a discussion to determine whether the project should be paused, or even stopped completely. 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, Global events and High inflation environment**

Almost all restrictions that were in place for the Covid-19 pandemic have now been lifted, and although the virus continues to circulate it no longer presents the health risk that previously existed. However, the consequences of the pandemic have been far reaching and recovery has been slow. The Council has prepared its 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.

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 Russian invasion of Ukraine and resulting economic sanctions placed on Russia and Belarus has further exacerbated supply chain issues for some commodities e.g. bituminous materials, steel etc. which were sourced from eastern Europe.

Taken altogether, this had manifested as the highest level of cost inflation experienced for around 30 years, though there were signs the inflation rate was starting to stabilise by the summer of 2023. This volatility has created 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 2022, and again in September 2023, and any significant programme/project impacts continue to be updated through updates to this committee.

## **Reinforced Autoclaved Aerated Concrete (RAAC)**

Following a published update regarding the risk of failure with Reinforced Autoclaved Aerated Concrete (RAAC) Planks, the Council is progressing a review of its public buildings where the presence of RAAC has been identified.

At this time, the presence of RAAC has been confirmed within a small number of them. This review includes carrying out further inspections and intrusive testing. The purpose being to give some assurance over the RAAC condition, in light of the new guidance, and direct any mitigation works where applicable. A similar programme of work is being conducted across the Council housing estate.

As part of this housing review, we have already identified a housing type with RAAC, located to the south of the city in the Balnagask area. The full review across the whole housing estate is on-going.

At this stage, overseeing the whole Council portfolio (public buildings and housing) it is not known the extent of the issue or any remedial costs. This will create a future financial liability to both the General Fund and the Housing Revenue Account.

## **Scottish Child Abuse Inquiry**

The Redress for Survivors (Historical Child Abuse in Care) (Scotland) Act 2021 (“the Act”) received Royal Assent on 23 April 2021. Scotland’s Redress Scheme opened on 8 December 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.