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ADDITIONAL CIRCULATION

ABERDEEN CITY COUNCIL

To: Councillor Lumsden, Convener; Councillor Grant, Vice Convener; and Councillors Boulton, Jackie Dunbar, Laing, McRae, Alex Nicoll, Yuill and Wheeler.

Town House,
ABERDEEN 23 October 2020

CITY GROWTH AND RESOURCES COMMITTEE

The undernoted items are circulated in connection with the meeting of the **CITY GROWTH AND RESOURCES COMMITTEE** to be held here in the Town House on **WEDNESDAY, 28 OCTOBER 2020 at 2.00 pm.**

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

BUDGETS

9.1 Council Financial Performance, Quarter 2, 2020/21 - RES/20/166 (Pages 3 - 56)

9.2 Medium Term Financial Strategy for the Council's General Fund - RES/20/200 (Pages 57 - 112)

Should you require any further information about this agenda, please contact Mark Masson, email mmasson@aberdeencity.gov.uk, or telephone 01224 522989

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ABERDEEN CITY COUNCIL

COMMITTEE	City Growth and Resources
DATE	28 October 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Council Financial Performance – Quarter 2, 2020/21
REPORT NUMBER	RES/20/166
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Lesley Fullerton
TERMS OF REFERENCE	1.2

1. PURPOSE OF REPORT

1.1 To provide the financial position of the Council as at Quarter 2 (30 September 2020) and the full year forecast position for the financial year 2020/21, including:

- General Fund and Housing Revenue Account (HRA) and capital accounts; and associated Balance Sheet; and
- Common Good revenue account and Balance Sheet.

2. RECOMMENDATION(S)

That the Committee: -

2.1 Note the positive cash position that has been achieved for the General Fund and HRA to the end of Quarter 2 as detailed in Appendix 1;

2.2 Note the Common Good financial performance to the end of Quarter 2 as detailed in Appendix 3;

2.3 Consider the General Fund position and agree on the actions to be taken to address the projected deficit as detailed in Appendix 2, making reference to the options available at paragraph 3.27, and lack of clarity on the value of income that may be receivable through the Income Loss Scheme;

2.4 Note that the revenue budget for the HRA is on target to achieve the approved budget, making a contribution to HRA reserves for 2020/21 as detailed in Appendix 2;

2.5 Note that the budget for the Common Good will be exceeded following additional contributions approved by the Urgent Business Committees on 6 May and 30 June 2020. Noting that cash balances forecast for the year remain in line with recommended levels, detailed in Appendix 2; and

2.6 Note that the capital expenditure for the General Fund will be lower than budgeted as a result of capital works being closed over the lockdown period of the Covid -19 pandemic. This will result in project budgets being carried forward into 2021/22; and it is estimated that expenditure on the Housing Capital programme will also be lower than budget also due to sites being closed, as detailed in Appendix 2;

3. BACKGROUND

3.1 The Local Government Finance Act 1992 provides that the Council must set its Council Tax amount by 11 March each year for the next financial year. The amount set must be sufficient to meet total estimated expenditures. This means that having taken account of expenditure, agreed savings and income from other sources, the level of Council Tax must ensure that a balanced budget is set by the Council. Aberdeen City Council set the Council Tax for 2020/21 on 3 March 2020 to ensure a balanced budget for year ahead, in accordance with its statutory duty.

3.2 It was identified early in the financial year that due to the Covid-19 pandemic a significant deficit was emerging. A report, to maintain a balanced budget based on the known information at that time, was considered by the Urgent Business Committee on 30 June 2020.

3.3 This report builds on that report, highlighting the emerging forecasts for expenditure and changes from those that were predicted at quarter 1. In that report I noted that as the council's Chief Financial Officer, I had attempted to ensure as much reliability and rigour to the financial data presented but stressed that those numbers were only as good as the information I had at the time and given the huge uncertainty that remained could change.

3.4 This report focuses on both the financial performance for the year to 30 September 2020 and the forecast financial position for the full year for the Council's General Fund, Housing Revenue Account and Common Good.

3.5 Across the General Fund the impact of the ever changing Covid-19 environment continues to change our understanding of the financial position and the need to address ongoing costs pressures remains a feature as I report our quarter 2 position and forecasts.

3.6 In June a deficit of c.£26m was rebalanced taking account of the known information on grant funding and a range of decisions being taken by the Urgent Business Committee.

- Scottish Government Funding £8.3m from consequentials to support local government expenditure and was distributed on the basis of local government financial settlement indicators;
- Flexibility agreed by the Scottish Government to enable councils to access uncommitted specific grant funding, that would normally be set aside for education and early year's expansion commitments, £8m;
- Flexible use of capital receipts, £0.5m to fund transformation expenditure, permitted since December 2018 and available until the end of 2020/21;

- one-off use of reserves £0.1m by releasing earmarked reserves for general use;
- one-off monies available from the Common Good, from in-year underspend projected and available cash balances to a value of £0.7m;
- reducing the financial resilience within the annual budget, by reducing contingencies by £1.0m; and finally
- balanced by a range of service based savings across the council, that were agreed, with service levels changed to take account of the expected progress through the Scottish Government's Route Map to easing Covid-19 restrictions.

3.7 Through the analysis of financial data and forecasting based on a greater volume of financial transactions through our systems the position is different as I report now.

3.8 Key aspects that have changed:

- Government grant funding has increased by £1.7m, our share of the £49m of consequentials distributed by the Scottish Government using Grant Aided Expenditure indicators and methodology. This funding can be used to support Council expenditure generally.

- Other funding has been distributed for specific costs, for example £0.6m has also been distributed to specifically support the infrastructure, cleaning and equipment costs for reopening the schools; and over £1.5m has been allocated, over the academic year, for additional teaching and support staff. Other funding steams are included in Appendix 1.

- At quarter 1 the £26m deficit itself had been arrived at on the basis that the management of vacancies and turnover of posts would result in over £23m of savings. This is now forecast to be closer to £15m as recruitment of staff, particularly in schools, has been successful for filling critical posts; and from fewer people leaving the Council.

- Revision to children services costs based on improved financial data for children placed in residential accommodation outside the city, where costs have been influenced by Covid-19 restrictions in quarter 1 not enabling young people to return to the city.,

- The ongoing review of income budgets and refinement based on improved data to forecast full year values and updated calculations in relation to uncollected debts.

- Savings have been identified too, including from the review of the capital financing costs, in line with the accounting policies, and in light of the forecasts for the capital programme this year as described in Appendix 2.

- Further detail on the variances is provided in Appendix 2.

3.9 The appendices show that the IJB is forecasting a balanced position as at Quarter 2, based on additional funding of £9.1m confirmed for it at the end of

September. The Board continue to rely on the Ministerial commitment to fund all of the identified mobilisation costs and therefore expect further funding announced to meet any shortfall towards the end of the year.

3.10 The Council should not ignore the risk that the demand pressures from the Covid-19 pandemic could yet adversely affect the position in the second half of the year, that may have to be addressed in 2020/21. The Urgent Business Committee report, 30 June, included details of those risks.

3.11 Further financial risks continue to emerge as the pandemic and the consequences develop. An example was highlighted in a letter from Scottish Government, 12 October 2020, on the subject of revised heating and ventilation guidance for the reopening of schools. This highlights the minimum standards expected and updates previously issued guidance. The financial implications have not yet been forecast, with utility costs potentially significantly affected

3.12 The Council retains a contingency budget to address unexpected and unplanned expenditure which could arise as a result of the identified contingent liabilities coming to fruition or from risks included on the corporate and operational risks registers. The CMT and senior management teams routinely review the risk registers, and the Chief Officer - Finance tracks the contingent liabilities.

3.13 A deficit of £5m has emerged from the latest data.

3.14 Solutions may come from several sources.

3.15 Financial flexibilities confirmed 9 October 2020 by the Scottish Government, provide levers for local authorities over the course of this and next year. There are three:

1. Capital receipts received in 2020/21 and 2021/22 can be used to meet revenue funding pressures caused by Covid-19 impact, recognising that the value and likelihood of capital receipts may be affected by the pandemic too. The Council has current commitments in relation to voluntary severance and early retirement and transformation costs that are to be met first from any capital receipt received.

2. Credit arrangements, for example PPP/PFI service contracts, applying revised international accounting standards that are due to be implemented in 2021/22 could provide scope to make debt repayments included in these contracts over an extended period. The flexibility allows early implementation, in 2020/21 to help mitigate the costs of Covid-19. This is a flexibility that the council should explore as it would bring parity with current capital repayment policy.

3. Loans fund repayment holiday, deferring the planned repayment of debt principal for 2020/21 or 2021/22 (not both years), creating a saving. This is not a cancellation of the money owed, and the council will then face higher payments in future years to repay the missed payment over a period of not more than 20 years. The council should avoid this flexibility

as it will add revenue pressure to the medium to long-term financial scenarios.

3.16 The Cabinet Secretary for Finance, in granting the flexibilities, was clear that this must not be seen as an opportunity to maintain or grow reserves. Local authorities must consider these in order, first consider the additional resources available from capital receipts and the change in accounting arrangements for service concession arrangements before taking advantage of a loans fund repayment holiday.

3.17 In relation to applying these in 2020/21 I'd advise the following:

1. Capital receipts are not available, they have been already committed to VS/ER scheme payments and transformation costs.
2. Credit arrangements, the council has these type of contracts and calculations can be done to establish the impact, with this being applied this year.
3. Loans Fund repayment holiday, I do not recommend at this juncture in the financial year but may yet have to be utilised going forward due to the risks of increasing cost pressures and lost income streams.

3.16 In the letter confirming the flexibilities described above, the Cabinet Secretary for Finance agreed to the principles of an Income Loss scheme as proposed by Cosla.

3.17 Funding to date has been distributed from Scottish Government to support Council's expenditure, the income loss scheme – arising from the UK Treasury scheme for English Local Authorities – is specific to the net income lost by local government in Scotland. It is also intended to consider lost net income of Arm's Length External Organisations.

3.18 While the principles are generally agreed there is still work being done to bring together the detail and what that means for individual councils. The Cabinet Secretary referred to COSLA being expected to gather the data, undertake the necessary validation checks, including Section 95 Officer sign-off, and confirm the indicative allocations to the Scottish Government.

3.19 Current estimate of the consequentials for the scheme are estimated at £90m but as the scheme in England doesn't have a specific total value and is subject to claims by local authorities the actual consequentials will not be known until that has been done.

3.20 When Cosla has finished the work described above the allocations can only be indicative. The final allocations updated and money will be paid in March 2021.

3.21 The total value of lost income, including ALEOs, in Scotland is estimated to be more than the £90m of funding that is indicativley available. Add to this the uncertainty as to how the distribution method will work for each council and it is unclear at the time of writing what the distribution of funds will be to Aberdeen City.

3.22 There is also the outstanding issue in terms of total funds being distributed equitably, taking account of income and expenditure pressures. Forecasts of the financial impact have been collected on three occasions by Cosla and the Aberdeen City proportion of the total value in Scotland that they published ranged from 8.2% to 4.3%. The distribution method applied to consequentials funding to date is based on expenditure indicators and therefore the Council received approximately 3.5% of the funding available.

3.23 There is therefore a discrepancy, as Aberdeen City has to date received a smaller proportion of the distributed funding than it has identified it needs. It means that some other councils will have received proportionally more funding than their reported deficits would require.

3.24 The development of the income loss scheme adds more complexity and with the situational changes and fluid nature of the forecasts, as exemplified in this report, mean that an overall position for councils will not actually be known until the end of the financial year. But that is too late.

3.25 There should be fairness in the distribution of funds, so in the event that the full financial impact of the pandemic is not funded by Scottish Government, each council receives the same proportion of their losses, rather than creating a environment of winners and losers.

3.26 The Council forecast in this report for the General Fund require us to act again to close the deficit, and the options are:

1. Explore the credit agreements flexibility option and apply benefits from 2020/21;
2. Pause, on the understanding that the Income Loss Scheme is being developed and the Council should benefit from further funding;
3. Ask for additional savings options and to report these back to a future CGR / UBC meeting.

3.29 Turning to the General Fund Capital Programme, all capital works have been affected by the March 2020 lockdown and very little progress was made in the first quarter of the year. Work is ongoing to reprofile the budgets, however this will continue throughout the remainder of the year as the continuing impact of the pandemic manifests itself, with the risk of further lockdowns or delays.

3.30 The Capital Programme spend is lower than budget, primarily due to the timing of expenditure, which has reduced the requirement for borrowing during the financial year. Project progress is monitored through the Capital Programme Committee.

3.31 The Housing Revenue Account is forecasting to be on budget and the associated Housing Capital Programme has also been delayed due to the constraints around the pandemic with expenditure forecast lower than budget incorporated the first of the new build housing projects, at Wellheads, Dyce and Summerhill development. These additional homes will generate a new income stream to fund the investment and satisfy a demand for housing.

3.32 The Common Good cash balances are forecast to be in line with recommended levels at the year end having taken into account the decisions agreed by Urgent Business Committee in May and June 2020. Additional expenditure was approved at both meetings amounting to a total of £0.8m.

3.33 Summary of Appendices

1. The financial statements reflect the income and expenditure of the General Fund and Housing accounts for the period to 30 September 2020 and, where the impact of statutory accounting adjustments can be calculated, these have been reflected in the financial statements as required by International Financial Reporting Standards (IFRS). The position at 30 September 2020 is positive as the profile of income from Scottish Government and Council Tax collection levels support expenditure levels.

   The Balance Sheet figures at 30 September 2020 shows the positive impact of the Council's cash position and an overall increase in net worth of the Council to £1.4 billion. The figures shown include statutory adjustments where these have been made, and where this is not possible the figure as at 31 March 2020 has been used.

2. This provides an overview of the forecast outturns for revenue and capital across the General Fund, Housing Revenue Account and Common Good. These financial statements provide a comprehensive summary of where the Council expects to be at the end of the financial year. These initial forecasts indicate that all revenue accounts are expected to be on budget, with the General Fund continuing to experience cost pressures while managing these across the whole portfolio of services. Capital investment is forecast to be approximately £198 million for the year, which will be funded by a mixture of Scottish Government Capital Grants, contributions from other partners and borrowing, as well as a substantial contribution from revenue to support the Housing Capital programme.

3. This presents the Common Good position as at 30 September 2020 and provides an overview of performance.

4. This provides information on the Group Entities. The forecast for the year indicates that there continue to be areas of concern in relation to a number of these entities for 2020/21, as detailed in the Financial Resilience reports to Urgent Business Committee, May and June 2020 and ALEO Assurance Hub report to Strategic Commissioning Committee, September 2020.

4. FINANCIAL IMPLICATIONS

4.1 The full year financial position is provided in Appendix 2 to this report and the revenue positions are summarised below:

Revenue	2020/21 Budget £'000	2020/21 Forecast (Surplus) / Deficit exc. Group £'000	Variance (Under) / Over Budget £'000
General Fund	0	4,950	4,950
HRA	(500)	(500)	0
Common Good	(439)	394	833

4.2 The capital position can be summarised as follows:

Capital	2020/21 Budget £'000	2020/21 Forecast Expenditure £'000	Variance (Under) / Over Budget £'000
General Fund	195,759	152,523	(43,236)
HRA	62,149	46,102	(16,047)

4.3 Details of key variances for the capital budgets can be found in Appendix 2.

4.4 Appendix 1 includes a Management Commentary providing information on the 2020/21 financial position, including details of the movement between Reserves.

4.5 The usable reserves have moved as follows:

Usable Reserves	Balance at 31 March 2020 £'000	Balance at 30 September 2020 £'000	Movement £'000
General Fund	(35,294)	(167,655)	(132,361)
HRA	(12,808)	(12,808)	0
Statutory & Other	(11,860)	(13,658)	(1,798)
Total	**(59,962)**	**(194,121)**	**(134,159)**

4.6 The increase in the General Fund is due to the positive cash position that the Council is in at the end of the second quarter. The income received is greater than expenditure incurred and is due to the timing of Scottish Government Grant and total collection of Council Tax. This cash position will be reversed in the second half of the year.

5. LEGAL IMPLICATIONS

5.1 While there are no direct legal implications arising from the recommendations of this report, there are additional reporting requirements due to the London Stock Exchange listing, for example the requirement to notify them ahead of publication of the report.

6. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk		L	
Compliance	There is the risk that the accounts do not comply with legal and accounting legislation.	L	Annual external audits are undertaken to review the financial transactions and controls. Ongoing internal audits also review specific financial and service data.
Operational	There is the risk that there may be an IT system failure.	L	Daily backups taken and held offsite for security purposes. Constant review and update of security systems for IT.
Financial	The main financial risk the Council is managing is the increased demand on services and ongoing Covid-19 implications. In relation to capital projects there is a risk that following the procurement process tendered costs will vary from that assumed at the time of project approval.	M M	Reviewing all areas of expenditure with a view to only incurring essential expenditure. Regular reporting and action taken where appropriate. Quantification and review of indicative projects costs by suitable qualified staff or external body, where appropriate.
Reputational	There is a risk that through the reduction of expenditure the Council may be criticised that spending isn't in line with public expectation of service delivery.	M	The Council has continued to address priority spending areas, and to protect people. It is equally accountable for the use of public funds and to ensure that they are managed robustly. There are a wide range of unknown external factors that require to be balanced to deal with the current operating environment. Regular reporting during the year provides an ongoing description of the position the Council is in and the situations it faces.

Environment / Climate	None identified		

7. OUTCOMES

COUNCIL DELIVERY PLAN	
	Impact of Report
Aberdeen City Council Policy Statement	*Financial planning, budget setting and resource allocation are all enablers for the delivery of the outcomes and regular performance reviews ensure that the Council's stewardship and financial management are robust.*
Aberdeen City Local Outcome Improvement Plan	
Prosperous Economy Stretch Outcomes	The Council continues to invest in front-line services across its statutory responsibilities as well as capital infrastructure. Investment in the city will have a positive impact on the economy.
Prosperous People Stretch Outcomes	Robust and effective management of the Council's finances will ensure that services can continue to be provided.
Prosperous Place Stretch Outcomes	Investment will enhance the place by creating a better and more vibrant city in which to live.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	not required
Data Protection Impact Assessment	not required

9. BACKGROUND PAPERS

None.

10. APPENDICES

Appendix 1 – Financial Statement for the period ending 30 September 2020
Appendix 2 – Forecast Financial Position for the year 2020/21
Appendix 3 – Common Good Financial Statement for the period ending 30 September 2020
Appendix 4 – Group Entities Forecast Financial Position for the year 2020/21

11. REPORT AUTHOR CONTACT DETAILS

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FINANCIAL STATEMENT FOR THE PERIOD ENDING 30 SEPTEMBER 2020

Contents

Management Commentary

The purpose of the Management Commentary is to inform readers, helping them to assess how the Council is performing and understand our financial performance for the quarter to 30 September 2020.

It also provides an insight into the expected financial performance for the remainder of the financial year 2020/21, 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.

Background

The Council must comply with a wide range of legislation and regulation in the course of its work. Since 2016/17 the issue of bonds on the London Stock Exchange (LSE) has placed an increased level of regulation around council finances in particular. Maintaining a credit rating, annually assessed and compliance with the reporting and disclosure requirements of the LSE means an extra level of scrutiny is placed on the Council.

Moody's (the credit rating agency) published their latest credit rating assessment of the Council in December 2019, maintaining a rating of 'Aa3', and reflecting the UK Outlook as 'negative', a change from the previous year but in line with the UK Sovereign rating. The annual reassessment is scheduled to be carried out in Quarter 3.

The Council has received an unqualified audit opinion for 2019/20 from KPMG, independent external auditor and the outturn position achieved as at 31 March 2020 was in line with forecasts. This placed the Council in a strong place to move into 2020/21 and tackle the financial pressures that it faces.

As at 1 April 2020 the Council held Usable Reserves of £59.9 million and had a Net Asset Value of £1.2 billion.

The Council set its 2020/21 budgets on 3 March 2020, approving for the General Fund a range of budget savings options and increasing Council Tax rates by 4% to set a balanced budget for the year.

The General Fund budget took account of a range of pay and price inflation pressures, in particular the pay award of 3% that had been agreed as the final part of a three-year deal. A net increase in the cost of debt reflected the significant investment there has been in recent years in city infrastructure. 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 out of authority placements and fostering and kinship care were also incorporated.

Since the budget was approved there have continued to be changes to the financial environment. The impact of Covid-19 has significantly impacted on the outlook for the Council and the United Kingdom as a whole. An immediate loss of income due to lockdown conditions resulted in increased financial pressures on the Council's budget which increased the funding gap from the value anticipated in the 2020/21 budget. This resulted in a revised budget being presented to Urgent Business Committee on 30 June 2020 and rebalancing options agreed.

The Housing Revenue Account budget was based on a 4% increase in rents from 29 April 2020, which was in line with the Council rent policy. The Council has now implemented a fixed term rent policy which applies from April 2020.

Our Financial Performance : General Fund

- **Performance in Quarter 2**

On 3 March 2020 the Council implemented a new operational structure in its financial systems for reporting purposes, the format of the financial statements in Appendices 1 and 2 reflect this new structure.

In March 2020, the Council set its General Fund and Housing Revenue Account (HRA) revenue and capital budgets for the financial year 2020/21, these were subsequently revised, and the revised budgets presented to Urgent Business Committee on 30 June 2020. 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 2020, presented in the format of our Annual Accounts on pages 7 to 14.

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.

<u>1. Operations</u>

At 40.82% against the full year budget, the services net expenditure for the year to date is below budget. This is mainly due to the schools being closed due to Covid-19 therefore it is expected that higher spend will occur in Education in the second half of the year, particularly as the cost of safe work practices are implemented. The Devolved Schools Management scheme was approved in August and provides schools with additional flexibility in the use of resources allocated.

<u>2. Customer</u>

At 61.28% against the full year budget, the function's net expenditure for the year to date is ahead of budget. This is due to the timing of contracts, particularly for ICT services, which are paid at certain points in the year and will reflect the full year cost.

<u>3. Commissioning</u>

At 66.54% against the full year budget, the function's net expenditure for the year is ahead of budget. This relates to the costs of the hydrogen bus project and development costs which means that expenditure to date is greater than the net budget available, this will be addressed in course of the second half of the year with income receivable to cover the costs.

<u>4. Resources</u>
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 in the normal course of the year recharging tends to be done later in the year.

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

At 52.43% against the full year budget, net expenditure on this function is slightly below budget. However, with demand led services there are invariably cost pressures which require to be managed and in particular there are pressures evident in relation to Covid-19, client contributions, commissioned services, out of area placements, and for young people transitioning from children's services with support needs.

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 are held for the purpose of being used if needed and capital debt repayments are lower than had been budgeted following the implementation of the new accounting policy.

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.

At this stage income from Non-Domestic Rates (NDR) is significantly less than budget at 33%. This is mainly due to the impact of COVID-19 where the Council experienced significant delays in processing the annual billing for 2020/21. This position is expected to improve in the coming months as businesses continue to make payments.

Income from Council tax is on budget for the time of year although collection levels are 1-2% below the level experienced last year. There has been an increase in the value of Council Tax Reduction income the Council will receive, which is indicative of the increased numbers of applications and awards being made. Collection processes were restarted following the Urgent Business Committee.

Income from Scottish Government is above budget, which is due to the profiling of Grant and NDR across the year. The Scottish Government front loaded General Revenue Grant payments and following the completion of the NDR billing for 2020/21 adjustments have been made to the payment profile. Further adjustments will be made following the submission of the mid-year NDR estimates and redetermination adjustments to the General Revenue Grant will be made in the final two weeks of March 2021.

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 each individual leases.

Our Financial Performance: Housing Revenue Account

- **Performance in Quarter 2**

8. Housing Revenue Account (HRA) is responsible for the provision of council housing to over 20,000 households with the most significant areas of expenditure being on repairs and maintenance and the servicing of debt incurred to fund capital investment in the housing stock. This is a ring-fenced account such that its costs must be met by rental income which at this stage in the year exceeds expenditure incurred. Rental income remains a regular source of funding. The HRA is ahead of budget at Quarter 2 because of billing of repair and maintenance in arrears and due to the change in types of work undertaken by Building Services as a result of COVID restrictions and this will be reviewed at year end following the guidance issued by Audit Scotland.

Our Financial Performance: Full Year Forecasts

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

Conclusion

This is the first quarterly financial performance report being presented to the City Growth & Resources committee for consideration of the financial year 2020/21. This follows early consideration of the financial position by the Urgent Business Committee on 30 June 2020. In setting the original 2020/21 budget, £37.9m of savings options were approved by the Council.

However, the COVID-19 pandemic has led to increased pressures on the Council budget. A considerable amount of work has been undertaken during the first half of the year to take account of all the Covid-19 implications identified. This included rebalancing the budget for 2020/21 based on what was known in the first quarter of the year. The Urgent Business Committee approved a number of measures that will improve the financial position over the course of the year.

The impact of the Coronavirus pandemic has been unprecedented in nature and the changing environment as restrictions ease and are reapplied will continue to make the full year position uncertain.

The second lockdown for Aberdeen City on 5 August 2020 had an impact on the Council in areas such as car parking income, where it fell again having begun to increase since the opening of shops in July 2020; and on the demand for environmental health services, which meant that agreements with Aberdeenshire had to be quickly established to add capacity to the system. There is much we still have to learn from the first half of the year, but the Council has done all it can to this point to prepare its financial position and to manage the impact.

It is clear that as restrictions and guidance change the Council is experiencing emerging demands to deliver support in the areas such as additional grants schemes and for track and trace response that are placing additional pressure on the staff and financial resources that the Council has.

During the remainder of the year the Council will continue to review and assess the changes that the pandemic has brought about and will re-evaluate the position to ensure that expenditure and income is being monitored and managed as required.

Movement in Reserves Statement

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

	General Fund	Housing Revenue Account	Statutory and Other Reserves	Capital Grants Unapplied	**Total Usable Reserves**	Total Unusable Reserves	**Total Council Reserves**
	£'000	£'000	£'000		£'000	£'000	£'000
Balance at 31 March 2020 brought forward	**(35,294)**	**(12,808)**	**(11,377)**	**(482)**	**(59,962)**	**(1,156,004)**	**(1,215,966)**
Movement in Reserves during 2020/21							
Total Comprehensive Income & Expenditure	(163,208)	(28,456)	0	0	**(191,664)**	25,659	**(166,005)**
Adjustments between accounting basis & funding basis under regulations	40,691	9,852	0	0	**50,543**	(50,543)	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(122,517)**	**(18,604)**	**0**		**(141,121)**	**(24,884)**	**(166,005)**
Transfers to/from Earmarked Reserves	(9,844)	18,604	(2,280)	0	**6,480**	(6,480)	**(0)**
(Increase)/Decrease in Year	**(132,361)**	**0**	**(2,280)**	**0**	**(134,641)**	**(31,364)**	**(166,005)**
Balance at 30 September 2020	**(167,655)**	**(12,808)**	**(13,658)**	**(482)**	**(194,603)**	**(1,187,368)**	**(1,381,971)**

Expenditure and Funding Analysis

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

	Quarter 2 2020/21			
Services	**Net Expenditure chargeable to General Fund & Housing Revenue Account**	**Adjustments between funding & Accounting basis**	**Net Expenditure in the CIES £'000**	**Notes**
	£'000	**£'000**	**£'000**	
Operations	112,076	(11,294)	100,782	1
Customer	22,071	0	22,071	2
Commissioning	14,756	0	14,756	3
Resources	(7,117)	0	(7,117)	4
Integration Joint Board	44,856	0	44,856	5
Corporate	(4,002)	(18,837)	(22,840)	6
Net Cost of General Fund Services	182,639	(30,132)	152,507	
Housing Revenue Account	(18,604)	(9,852)	(28,456)	7
Net Cost of Services	164,035	(39,984)	124,051	
Other Income and Expenditure	(305,156)	(10,559)	(315,715)	8
(Surplus) or Deficit on Provision of Services	(141,121)	(50,543)	(191,664)	
Opening General Fund and HRA Balance at 31 March 2020	(48,102)			
(Surplus) or Deficit on General Fund and HRA Balance in Year	(141,121)			
To/From Other Statutory Reserves	8,760			
Closing General Fund and HRA Balance at 30 September 2020	(180,463)			

Notes

1. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £11.294 m accounting adjustment relates to the removal of Annual Service Payments for the 3R's schools and Lochside Academy which for accounting purposes are required to be split into its component parts, payment for services; repayment of capital; and financing costs.
2. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
3. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
4. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
5. See page 3 for information relating to Net Expenditure chargeable to the General Fund. There are no accounting adjustments relating to this service in this quarter.
6. See page 3 for information relating to Net Expenditure chargeable to the General Fund. The £18.837m accounting adjustment relates to contributions to Capital from Current Revenue (CFCR).
7. See page 3 for information relating to Net Expenditure chargeable to the Housing Revenue Account. The £9.852m accounting adjustment relates to CFCR.

8. See page 4 for information relating to Net Expenditure chargeable to the General Fund. The £2.276m adjustment comprises the following three elements, which realign costs from other parts of the budget:

£13.39m	is the element of the 3R's and Lochside Annual Service Payments which is reallocated as per note 1 above to bring together financing costs which flow into the Financing and Investment Income and Expenditure line in the CIES below.
(£5.00)m	that is the allocation of the Marischal Square finance lease payment.

(£18.949)m that is the allocation of capital grant income which flows into the Taxation and Non Specific Grant Income line in the CIES below

Comprehensive Income and Expenditure Statement

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

	Quarter 2, 2020/21			
Services	**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Notes**
	£'000	**£'000**	**£'000**	
Operations	147,887	(47,105)	100,782	
Customer	50,348	(28,277)	22,071	
Commissioning	16,702	(1,946)	14,756	
Resources	30,024	(37,142)	(7,117)	
Integration Joint Board	71,907	(27,051)	44,856	
Corporate	9,951	(32,791)	(22,840)	
Cost of General Fund Services	**326,819**	**(174,312)**	**152,507**	
Housing Revenue Account	22,593	(51,049)	(28,456)	
Cost of Services	**349,412**	**(225,361)**	**124,051**	
Other Operating Expenditure			0	1
Financing and Investment Income and Expenditure	29,548	(12,585)	16,963	2
Taxation and Non Specific Grant Income	0	(332,678)	(332,678)	3
(Surplus) or Deficit on Provision of Services	**378,960**	**(570,624)**	**(191,664)**	
(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			25,659	4
Other Comprehensive Income and Expenditure			**25,659**	
Total Comprehensive Income and Expenditure			**(166,004)**	

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.

31 March 2020 £'000		30 September 2020 £'000	Note
2,405,949	Property, Plant & Equipment	2,446,361	1
197,819	Heritage Assets	197,819	1
210,745	Investment Property	210,745	1
0	Loans Fund	(11,953)	1
17,090	Long Term Investments	17,090	2
7,540	Long Term Debtors	7,523	3
2,839,143	**Long Term Assets**	**2,867,586**	
101,542	Cash and Cash Equivalents	128,975	4
50,454	Short Term Investments	52,694	5
96,981	Short Term Debtors	87,280	6
2,017	Inventories	3,479	7
0	Assets Held for Sale	0	8
250,994	**Current Assets**	**272,427**	
(208,162)	Short Term Borrowing	(154,916)	9
(99,261)	Short Term Creditors	900,531	10
(2,253)	Short Term Provisions	(2,170)	11
(3,020)	PPP Short Term Liabilities	(3,674)	12
(6,129)	Accumulated Absences Account	(6,129)	13
(712)	Grants Receipts in Advance - Revenue	1,566	14
(25,104)	Grants Receipts in Advance - Capital	(37,117)	14
(344,641)	**Current Liabilities**	**698,091**	
(1,026,809)	Long Term Borrowing	(1,957,004)	15
(57,602)	Finance Lease	(57,141)	16
0	Long Term Creditors	0	17
(613)	Long Term Provisions	(613)	11
(135,202)	PPP Long Term Liabilities	(132,072)	12
(309,303)	Pension Liabilities	(309,303)	18
(1,529,530)	**Long Term Liabililties**	**(2,456,133)**	
1,215,966	**Net Assets**	**1,381,971**	
	Usable Reserves:		
(35,294)	General Fund Balance	(167,655)	19
(12,808)	Housing Revenue Account	(12,808)	19
(11,377)	Statutory and Other Reserves	(13,658)	19
(1,156,486)	Unusable Reserves	(1,187,850)	20
(1,215,966)	**Total Reserves**	**(1,381,971)**	

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 £40.412m has been applied to Property, Plant & Equipment (this includes £23.110m of general fund expenditure and £17.302m 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.

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

4. Cash and cash equivalents include short term investments of £111.504m (because they can be called up at short notice i.e. 0 to 30 days) and developer's contributions of £24.817m. 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. As at Q1, there are no assets held for sale. 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 2021.

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 2021.

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

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

19. Usable Reserves reflects the current position based on transactions for the period. Usable Reserves includes uncommitted reserves and earmarked reserves, and due to the positive cashflow have increased to a level that is higher than forecast for the end of

the year, the cashflow being used to fund expenditure that will be incurred in the second half of the year.

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

Cash Flow

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

	Quarter 2 2020/21
	£'000
Net Surplus or (Deficit) on the provision of services	191,664
Adjust net surplus or deficit on the provision of services for non cash movements	(999,987)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(18,949)
Net cash flows from Operating Activities	(827,272)
Net cash flows from Investing Activities	(19,223)
Net cash flows from Financing Activities	873,929
Net increase or decrease in cash and cash equivalents	27,433
Cash and cash equivalents at the beginning of the reporting period	101,542
Cash and cash equivalents at the end of the reporting period	**128,975**
Cash held by the Authority	39
Bank current accounts	128,936
	128,975

Contingent Liabilities

In addition to amounts recognised on the Balance Sheet, the Council is aware of the following contingent liabilities at 30 September 2020:

<u>Guarantees</u>

Aberdeen Science Centre (formerly Satrosphere)

The Council has agreed to provide a guarantee to the Bank of Scotland for the sum of £127,654 in support of an overdraft facility and card guarantee facility until 31 March 2021.

Transition Extreme Sports Ltd

The Council has agreed to provide a guarantee to the Bank of Scotland in respect of a maximum overdraft facility of £250,000, as approved at City Growth and Resources Committee on 5 December 2019. Exercising the delegated authority provided by the Committee, the Chief Officer put in place a guarantee that ends on 31 March 2021.

Sport Aberdeen

The Council agreed to provide a bank guarantee to Sport Aberdeen to a maximum of £5 million over a 5-year period for investment in Council leisure facilities, as approved at the 7 June 2016 Finance, Policy and Resources Committee. A guarantee for a revolving credit facility for £1.4m is also in place

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

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

SEEMIS Group LLP

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

Integration Joint Board (IJB)

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

Contractual

Waste Disposal

The Council has a long-term contract with an external contractor for the disposal of all relevant waste arising in the City and the operation and maintenance of waste transfer stations, recycling facilities and landfill sites. The contract commenced in September 2000 and is due to run for 25 years.

The 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 summer 2022 and will run for 20 years.

Landfill Allowance Scheme (LAS)

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

Section 75 agreements

Section 75 agreements (developer obligations) are frequently sought by the Council in relation to the award of planning permission. The Supreme Court's judgement in relation to the Strategic Transport Fund (STF), which was funded through developer obligations, has significant implications for the Council, as there are several large scale projects in development which had expected to rely on STF funding. Delivery of these projects is now at risk unless an alternative funding solution can be identified.

Our Generation – Solar Panels

A contractual dispute exists in relation to this contract which may give rise to a future financial liability. On 23 July 2019 the Council successfully defended an appeal by Our Generation to the Court of Session on the findings of the original judgement. The matter remains outstanding and is subject to further legal proceedings.

Aberdeen Art Gallery

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

A new adjudication was raised by the main contractor for a specified time period within the works period. The adjudication decision led to an extended time award for the main contractor. Notwithstanding this, and prior to the adjudication decision the Council raised a new Court of Session action to determine the cost of delays encompassing the whole contract period. Part of this court action will reconsider the recent adjudication decision. This may give rise to a future financial liability.

Scottish Child Abuse Enquiry

The Scottish Parliament is considering the introduction of a redress scheme (by April 2021) in relation to claims from survivors of abuse in Scotland. This is currently at the review stage and financial contributions may be requested from Local Authorities in relation to this, as it may be an alternative route for survivors to submitting claims to the Council. Further discussions will take place over the coming year to assess any proposed level of contribution from Aberdeenshire Council. In the meantime, it is still possible that the Council will receive civil claims relating to periods of time in care which has the potential for significant costs to be incurred.

Multi Storey Blocks

In response to the Grenfell Tower incident, Building Regulation Fire Safety has been reviewed by the Scottish Government, and an updated Technical Handbook published. The provision of automatic fire suppression systems has been deferred until 2021 to align with a government commitment to introduce this within new build social housing. Retrofitting suppression in existing dwellings is not a requirement. The cost impact of these changes for new dwellings is not quantified at this time.

Pension Fund costs – McCloud Judgement

The decisions of the Court of Appeal in the Sargeant/McCloud cases (now generally known as McCloud for Local Government Pension Schemes) have ruled that the transitional protections afforded to older members when the Public Service Pension Schemes were amended constituted unlawful age discrimination. Going forward remedies relating to the McCloud judgement will need to be made in relation to all public sector pension schemes including the LGPS.

As the exact timing and costs to the Council are unknown at this time estimates have been built into the 2018/19 and 2019/20 pension service costs. There remains the possibility that these costs may be higher.

COVID-19 Impact

Statute and government guidance restricting the movement of people and effectively locking down the country in March 2020 now leaves the Council in a position of increased uncertainty on a number of fronts. Facilities closing and construction sites being shut down for a period of time increases the likelihood of the Council and contractors referring to contractual documents and for disputes to arise. Although Scotland moved to Phase 3 of the Scottish Government Routemap, coming out of lockdown on 10 July 2020, a level of uncertainty continues, and no value can be estimated at this time.

Coronavirus Related Funding Update

What this means for Aberdeen City Council as at 6 October 2020

Ref No	Title	Description	Implemented?	2020 All Scotland Funding Pot	Funding for ACC	Spend to Date
1	Business Grants & Expansion	This grant is routed through Local Government (LG) but is not additional funding for LG.	Yes, scheme now closed.	£1.2bn	Est. £35m Rec'd Initial allocation £26.9m; plus further drawdown of £2.3m. Total £29.2m	£27.948m
2	Business Grants – Phase 3 Non-NDR ratepaying tenants/ occupiers	Routed through LG but no additional funding.	Yes, scheme now closed.	£1.120m	See above	£0.910m
3	Business Relief Scheme		Yes, legislation received, billing completed, and reliefs applied, subject to ongoing queries being addressed.	£1.0bn	General Revenue Grant increased by £86m – paid through year	N/A
4	Newly/Self-employed and SME'S	Routed through LG but not additional as above.	Announced 15/4/2020, guidance, received, implementation complete.	£34m has been allocated, 60% was distributed (£20.4m)	Rec'd £1.125m; Returned unspent money of £0.759m	£0.366m
5	Hardship Fund		Assessing costs to be applied	£50m	Allocated £1.758m Rec'd £1m	
6	Scottish Welfare Fund		Yes, in progress.	£45m + £23m top up	Top up of £0.6m allocated	
7	FSM/Vulnerable Persons Meals Fund	Distribution basis of funding to be agreed with Cosla	Yes	£27.6m	Approx £0.700m To be confirmed	
8	Council Tax Reduction	Additional Funding released to	Yes, in progress	£25.0m	£0.63m	£0.83m

Ref No	Title	Description	Implemented?	2020 All Scotland Funding Pot	Funding for ACC	Spend to Date
		offset increased costs.				
9	Food Fund		Yes, in progress	£70m, only £30m distributed	Allocated £0.802m	£0.876m
10	Local Government	Consequentials for use flexibly	Not Applicable	£155m	£5.448m	n/a
11	Additional Registrar Funding	To offset additional costs arising from Covid	Yes	£0.6m	£0.025m	£0.007m
12	Community Justice Co-ordinators	Awaiting Cosla distribution agreement.	No	£0.4m		
13	Digital Inclusion Specific Grant	to assist with digital inclusion for children and young people	Yes	The total funding is confirmed as £25m, split between c.£20m for devices and c.£5m for connectivity solutions.	Capital grant funding will be made available to purchase the devices. £0.500m	£0.500m committed
14	Additional DHP Monies	Proposed distribution as per SDG Paper 14/2020		£5m	£0.196m To be confirmed	In process
15	Additional Teachers and Support Staff (School Year funding – crosses two financial years)	Proposed distribution as per SDG paper 17-2020	As per SDG Distribution formula	£50m.(part of Scottish Govt general announcement in June of £100m over two years)	£1.029m 2020/21 and £0.514m 2021/22	In process
16	Funding to support the reopening of schools announced 23-7-20 (Logistics Funding)	Distribution based on GAE and Rurality (90/10 split)	In progress, costs ongoing.	£20m	£0.605m	In process
17	Funding to support the	Ring fenced Funding	Details awaited, but based on	£30m	Bid process to	

Ref No	Title	Description	Implemented?	2020 All Scotland Funding Pot	Funding for ACC	Spend to Date
	reopening of schools announced 30-07-20		'evidence of need'		be put in place	
18	Tranche 2 teaching monies	Assume same distribution as first tranche of teaching money (3%)	Announced by Scottish Govt 30/7/20	£30m	£0.926 over two school years.	In process
19	Bus Priority Rapid Redevelopment Fund	Subject to a bid process through Transport Scotland.	General principles agreed through COSLA July 2020 SDG Paper 19-2020	£10m	TBC	No bid submitted
20	No One Left Behind	Ring fenced for Employability Support	Distribution formula principles agreed through COSLA June 2020	£2.35m	£0.070m TBC	
21	Transitional Support Fund for Childcare providers	Grant scheme for non- LA ELC Settings administered by LA's	Being Set Up – info being received from Scottish Govt	£10.8m	£0.507m	£0.211m
22	School Transport – Capital Grant	Distribution of Covid Mitigation Funding for School Transport	Waiting for distribution confirmation from Cosla	£1.5m	£0.038m	
23	Additional Capital for Placed Based Regeneration	Proposed £12m Regeneration Capital Grant Fund (Bid Process) and £18m Town Centre Fund - LA Allocation		£30M	£0.480m	Report to CGR Cttee 28 October 2020
24	Rapid Rehousing Transition Plan			£8m	£0.358m	
25	Business Grants for local Covid Outbreak	Awaiting details		£1m	£1m	£0.336m

Ref No	Title	Description	Implemented?	2020 All Scotland Funding Pot	Funding for ACC	Spend to Date
26	Local Government	Consequentials for use flexibly	Not Applicable	£49m	£1.722m	
27	Local Government	Income Loss Scheme	Guidance and criteria being prepared by Cosla/Directors of Finance; Cabinet Secretary approval in principal.	c.£90m	Not yet know; quality assurance checks being carried out on data submitted.	£23.96m income loss figures submitted to Cosla

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ABERDEEN CITY COUNCIL

PROJECTED FINANCIAL POSITION FOR THE YEAR 2020/21

Contents

MANAGEMENT COMMENTARY

This is the second quarter report on the Council's finances, and follows approval of the revised budget at Urgent Business Committee on 30 June 2020.

Appendix 1 provides the Income and Expenditure Statement and Balance Sheet of the Council as at 30 September 2020. The forecast for the year is built on the information that was available at this time.

The full year budgets reflected in the table below differ from those set by Council in March 2020 as the Covid-19 pandemic and subsequent lockdown created many changes to expected income and expenditure of the Council for 2020/21. The Council reviewed and updated the March budget to ensure that all known risk areas were recognised and identified further savings and the use of flexibilities in the ELC expansion specific grant funding to continue to forecast a balanced position for the year. This revised budget was presented at Urgent Business Committee on 30 June 2020.

The forecasts for the year are built on information that was known as at 30 September 2020 with further adjustments to reflect any significant changes after this date.

In common with recent years there are pressures on the organisation that emerge during the year and to which the Council is responding. The financial position is kept under regular review in relation to progress and forecasting and the conclusions included in Appendix 1 describe the overarching controls that the Council has in place to manage the financial position. There is a commitment from Senior Management to pursue options to mitigate the cost pressures and to work with the Chief Officer – Finance to ensure the overall agreed budget is adhered to.

General Fund

With reference to the table below, key areas of the budget that the Council is managing are as follows:

1. The main areas of pressure within Operations are:
    - An increase in the teaching staff costs due to successful recruitment over the last two months, and approved alternative delivery model spend in Education,
    - Increased spend on Out of Authority Placements due to COVID-19 restrictions not enabling children to return to the City,
    - A delay in capital works restarting in Roads after COVID-19 restrictions is likely to impact revenue income,
    - Higher staff costs associated with additional cleaning requirements,
    - The contract costs for education and social work transport in the current year.
2. The main areas of pressure within Customer are:
    - The impact of decreased demand for advertising services is forecast to result in lower income levels this year.
    - Contract savings in IT Systems and Technology may not be achieved as anticipated.
    - There is a risk that the level of rental income from private sector housing may be lower than budget due to in year activity.
3. The main areas of pressure within Commissioning are:
    - Lower than expected demand from service provision leading to decreased income from recharges in Commercial and Procurement.

- Income from catering services provided by museums and galleries has been forecast on a prudent basis and will be revised as trading continues, following the re-opening of the Aberdeen Art Gallery.
- There is a risk in Governance that charges for legal support do not match budgeted levels, which depend on in-year activity levels.
- Under recovery of Planning Application Fees due to the impact of COVID-19, continue to see a reduction in income that is greater than forecast at Quarter 1.

4. The main areas of pressure within Resources are:

- Commercial property trading account income targets are being closely monitored but the Council may be affected by bad debt provisions at the year end. This is addressed in the corporate budgets below.
- The impact of decreased demand from services resulting in decreased income from recharges in People & Organisation

5. The main areas of pressure within Integrated Joint Board (IJB)/Adult Social Care are:

- The impact of COVID-19 will have a continuing effect on all services through the year, in particular the purchase of personal protective equipment and extra care home beds.
- There is a risk that suppliers may struggle to provide care services as they deal with the effects of COVID-19. To mitigate this risk the IJB are providing additional payments to care providers to ensure continuity of service.
- Demand for commissioned services in Learning Disabilities and Mental Health & Substance Misuse.

The Urgent Business Committee on 30 June 2020 instructed the Chief Officer – Finance to report the details of the IJB recovery plan to the City Growth & Resources Committee.

The Council received a report from the IJB that was presented at a meeting of the Integration Joint Board on 11 August 2020 detailing the financial position for Quarter 1 that was known at that time. The position of the IJB as at 30 June 2020 was an overspend position of £11.4m, comprising direct costs of Covid-19 - £7.6m, and indirect costs of Covid-19 - £3.5m. A prudent approach was taken to forecasting the level of additional income to be received by the Scottish Government for the cost implications of Covid-19, and only income that had been received was accounted for in this forecast.

The decision of the Board at that time was to defer any specific action until the funding position was understood. Further information was expected from the Scottish Government at the end of September 2020.

On the 29 September 2020, the IJB received details of further funding of £9.1m allocated to them. This does not cover all mobilisation costs identified. The Scottish Government requested that further information be provided to them following Quarter 2, and they will revisit the funding requirements at this time.

The IJB and NHS Grampian both continue to rely on the commitment provided by Scottish Government Ministers that ultimately all costs will be covered by additional funding. On this basis the IJB continues to forecast a break- even position.

6. Across the whole of the Council the planned reduction in the number of posts that are affordable is being managed through voluntary and natural processes, i.e. no compulsory redundancy. This means that there is expected to be continued reduction in the total workforce during the year. The corporate saving for a reduced workforce is captured in the "Corporate Budgets". The full value of the staff savings is forecast to be under budget mainly due to the demand for teaching staff at this time, and this differs from the forecast made at quarter 1. Additional funding has also been allocated to the Council to enable increased teacher and teaching support to be delivered during school year 2020/21.

   The Council continues to limit external recruitment of employees only to critical posts where there was a clear and pressing need for resources relating to the COVID-19 response or public health and protection and teaching and the resources cannot be found either from temporary or permanent internal movement.

   Contingencies also holds the in-year revenue contingency for the General Fund and the forecast includes the use of that contingency later in the year. The actual position will depend on future events arising from the risk registers and, where identified, contingent liabilities becoming more certain (see Appendix 1). It means the Council is resilient to changes that might happen in the future that have not been able to be quantified financially. An example of a reason for holding a contingency is winter maintenance, flooding and prolonged adverse winter weather that can increase costs particularly in the second half of the year.

7. The bad debt provision has been updated to take account of latest data, which shows a significant increase in the value of general invoices that remain unpaid. This budget sits within Council Expenses and is under regular review. The council has now reinstated income recovery processes that are expected to have an impact on collection levels and therefore bad debt calculations in the second half of 2020/21.

8. The Joint Boards budget and forecast outturn is based on the amount requisitioned by Grampian Valuation Joint Board and is on budget.

9. Miscellaneous Services includes capital financing costs, the cost of repaying the borrowing received in the past for General Fund Capital Programme investment. Capital Financing Costs is the most significant budget within Miscellaneous Services, and incudes the impact of accounting for loans fund repayments on a prudent basis, approved by the Audit Risk and Scrutiny Committee in April 2019. Reduced expenditure on capital financing costs is helping to compensate for the additional bad debt costs and lack of staff savings that have been forecast.

10. The Non-Domestic Rates figure is set by the Scottish Government as part of its overall funding support package rather than the amount billed and receivable by the Council. Due to COVID-19 the Scottish Government has made extra reliefs available to the Retail, Hospitality and Leisure sectors to non-domestic properties from 1 April 2020 to 31 March 2021. Wherever possible the Council has applied the relevant reliefs, but minor adjustments continue to be made based on contact with ratepayers.

11. The General Revenue Grant is set by the Scottish Government as part of its funding support package. This has increased by £6.774m since quarter 1 due to additional funding relating to Covid-19 announcements. The final value may change further during the year as and when the UK and Scottish Governments announce further funding to support local authorities through ongoing restrictions.

12. Council Tax income is anticipated to be on budget for the year, with an increased allocation of funding for the Council Tax Reduction Scheme in 2020/21 and careful consideration is being given to the level of bad debt that might arise at the year end.

13. The budget approved at Urgent Business Committee on 30 June 2020 agreed to use reserves of £119k to support revenue expenditure. This will be taken from three former earmarked reserves.

Housing Revenue Account

14. The overall HRA budget is balanced however there are a number of significant variances as reported to UBC in June 2020. These are in the areas of an increase in repairs and maintenance costs, the need to recognise increased bad debt and housing voids. The higher cost is offset by a reduced contribution to Capital from Current Revenue (CFCR).

Earmarked Reserves

The Council holds over £25m of earmarked reserves across the General Fund and HRA and expenditure is estimated to be incurred over a period of years. In 2020/21 the Urgent Business Committee agreed the release three sums totalling £119k to support the 2020/21 budget rebalance.

Expenditure in relation to the delivery of other specific projects, funded by the earmarked reserves is not included in the figures in the tables above. The Council expects to incur significant expenditure from the Transformation Fund in 2020/21 progressing the digital programme of transformation. As at 30 September 2020 £1.1m has been spent on staff and partner contracts and commitments show that expenditure during the year will increase spend towards the full use of remaining funds (£3.455m).

Similarly progress in using the Pupil Equity Funding has been invested to support closing the attainment gap through addressing digital exclusion and it is estimated that the full value of £0.925m will be used in 2020/21.

The other significant earmarked reserve to draw attention to at this time is the Second & Long-term Empty Properties reserve (£12.736m), which is set aside for affordable housing. It is estimated that the income to this reserve, received annually from Council Tax, may be lower than previous years due to the impact of the pandemic however this will be reviewed again for the Quarter 3 reporting. Expenditure in 2020/21 will depend on the progress with the Summerhill and Wellheads developments as funding is committed to these schemes to support the delivery of additional social housing by the Council.

Balancing the Budget through Controls and Monitoring Structures

Specific actions to ensure a balanced budget include:

- Ongoing review and analysis of the Covid-19 impact on council budgets, income in particular and costs associated with protecting customers and staff.
- Detailed and effective management of turnover of staff and vacancies and an underlying assumption that the overall cost of staff will continue to reduce during the remainder of the year. The Chief Officers for People & Organisation and Finance following consultation with the Convener of City Growth and Resources Committee, are currently approving any externally advertised vacancies.
- A detailed review of the out of authority placements for children by the Chief Officer – Integrated Children's Services is continuing.
- Specific work in relation to the Service Income policy to ensure full cost recovery is achieved from a range of services that the Council delivers, such as support services, housing services, accommodation and building services.
- Monitoring and management of council long-term debt in light of the agreed policy and capital spend forecasts for 2020/21.
- The voluntary severance / early retirement scheme remains open and applications are considered as they are received.

In order to ensure tight controls are in place over expenditure, management have created the following control boards, through which requests to spend must be cleared:

The Demand Management Control Board captures the commissioning and procurement intentions as they arise and provides an environment for demand-based challenge – this is co-chaired by the Chief Officers for Early Intervention & Community Empowerment and Data & Insight.

This Control Board focuses on revenue while the Capital Board oversees the progress and emerging aspects of capital planning and delivery, but also connects to the asset elements of the revenue budget and capital financing requirements.

The Transformation Management Group established a Finance sub-group which meets regularly, chaired by the Chief Officer - Finance and brings together the emerging and escalated issues from overall financial performance. This sub-group is made up of the Directors, and the Chief Officers for Governance, People & Organisation and Data & Insight and is the forum to enable an overarching look at Council-wide financial performance, agree on actions and provide assurance.

Balancing the Budget through the monitoring and control of risks.

Risks are reviewed on a regular basis at a strategic level by the Corporate Management Team on a monthly basis and at an operational level by Chief officers and their teams daily. The main risk to the Council remains the impacts of COVID-19 both as reported to Urgent Business Committee on 30 June 2020 and the emerging / changing nature of the easing and tightening of restrictions that are continuing to apply at different times and to different levels in different parts of the country.

Contingent Liabilities are noted to try and capture potential liabilities which could result in costs being incurred in the future. As part of the budget process, contingent liabilities are reviewed and described within the budget pack presented to Council. The Corporate Management Team continues to monitor the status of these. A review of the contingent liabilities, listed in Appendix 1, has not established any significant shift in certainty or in the Council's ability to quantify the financial exposure. On that basis there is no adjustment included in the forecasts for the year, they will continue to be reviewed quarterly and any change reported as appropriate.

Conclusion

Based on the information available, and set out in this report, the forecast for the overall position of the General Fund is a £4.95m deficit and the Housing Revenue Account is a balanced position, and this is captured in the tables set out below.

General Fund Financial Reporting Summary 2020/2021 - Quarter 2

As at 30 September 2020	Budget 2020/2021	Outturn 2020/2021 Quarter 2	Variance from Budget		Notes
	£'000	£'000	£'000	%	
Operations	269,225	272,375	3,151	1.2	1
Customer	38,787	39,156	369	1.0	2
Commissioning	22,176	23,206	1,030	4.6	3
Resources	6,000	5,830	(170)	(2.8)	4
Integrated Joint Board	92,468	92,468	(0)	(0.0)	5
Total Functions Budget	**428,656**	**433,036**	**4,380**	**4**	
Contingencies	(11,962)	(7,470)	4,492	(0.4)	6
Council Expenses	3,122	5,817	2,695	0.9	7
Joint Boards	1,831	1,831	0	0.0	8
Miscellaneous Services	50,871	46,028	(4,843)	(0.1)	9
Total Corporate Budgets	**43,862**	**46,205**	**2,344**	**0**	
Non Domestic Rates	(164,415)	(164,415)	0	0.0	10
General Revenue Grant	(179,587)	(181,361)	(1,774)	1.0	11
Government Support	**(344,002)**	**(345,776)**	**(1,774)**	**0.5**	
Council Tax	(128,396)	(128,396)	0	0.0	12
Local Taxation	**(128,396)**	**(128,396)**	**0**	**0.0**	
Contribution from Reserves	(119)	(119)	0	0.0	13
Contribution from Reserves	**(119)**	**(119)**	**0**	**0.0**	
Deficit/(Surplus)	**(0)**	**4,950**	**4,950**	0.0	

Housing Revenue Account Summary 2020/2021 - Quarter 2

Deficit/(Surplus)	**(500)**	**(500)**	**(0)**	**0**	14

General Fund Capital Programme

As at Period 6 2020/21	Gross Figures for 2020/21						
	Original Approved Budget £'000	Adjustments & Carry Forwards £'000	Revised Budget £'000	Expenditure to Date £'000	Forecast Outturn £'000	Variance £'000	Outturn Variance from Revised Budget £'000
AECC Programme Board	3,500	11,246	14,746	1,796	14,746	(12,950)	0
Asset Management Programme Board	57,161	3,995	61,156	7,911	50,484	(53,245)	(10,672)
Asset Management Programme Board Rolling Programmes	31,701	2,877	34,578	4,599	13,808	(29,979)	(20,770)
City Centre Programme Board	20,808	(1,958)	18,850	4,094	15,850	(14,756)	(3,000)
Energy Programme Board	33,804	(7,213)	26,591	2,335	33,525	(24,256)	6,934
Housing and Communities Programme Board	1,524	600	2,124	214	2,124	(1,910)	0
Housing and Communities Programme Board Rolling Programmes	956	(556)	400	103	400	(297)	0
Transportation Programme Board	25,022	(570)	24,452	1,373	13,113	(23,079)	(11,339)
Transportation Programme Board Rolling Programmes	3,602	391	3,993	118	2,000	(3,875)	(1,993)
Strategic Asset & Capital Plan Board	5,482	1,019	6,501	485	4,054	(6,016)	(2,447)
Strategic Asset & Capital Plan Board Rolling Programmes	2,368	0	2,368	185	2,368	(2,183)	0
Developer Obligation Projects & Asset Disposals	0	0	0	135	51	135	51
Total Expenditure	**185,928**	**9,831**	**195,759**	**23,347**	**152,523**	**(172,412)**	**(43,236)**
Capital Funding:							
Income for Specific Projects	(69,479)	18,970	(50,509)	(9,540)	(34,499)	40,969	16,010
Developer Contributions	0	0	0	(51)	(51)	(51)	(51)
Capital Grant	(18,654)	0	(18,654)	(9,246)	(18,654)	9,408	0
Other Income e.g. Borrowing	(97,795)	(28,801)	(126,596)	(4,509)	(99,319)	122,087	27,277
Total Income	**(185,928)**	**(9,831)**	**(195,759)**	**(23,347)**	**(152,523)**	**172,412**	**43,236**

The closure of construction sites in compliance with government guidance for responding to the Covid-19 Pandemic meant very little physical progress was achieved on projects during the first quarter of 2020/21.

The Council was in continued contact with contractors throughout this period of shutdown. It became evident that this period, combined with the new working practices to be adopted on the easing of lockdown, has introduced time and cost pressures on all parties. These pressures are extremely difficult to quantify but initial assessments have been made and will continue to be refined in conjunction with the contractors. Now works have re-commenced, it is the intention that for each project as we are able to understand the time and cost implications, we will report this back to the relevant committee.

As reported to Capital Programme Committee in September, it is currently assumed:

- Most projects will be delayed;

- It is difficult to predict when each project will be delivered;

- The contracting parties continue to discuss how to apportion additional costs incurred during the shutdown period with contractors; and

- Project costs are likely to increase following construction re-start (e.g. demobilisation, remobilisation, security, PPE, etc.).

The approach for the initial review of the programme was based on the categories used in the original budget report:

- Rolling Programmes: these will experience a significant reduction in spend this financial year because of works being ceased, delays within the supply chain (for example, vehicle replacement) and seasonal works being unable to progress (for example roads works);

- Legally Committed Projects: re-profiling is ongoing, but indicative outturns are shown. Consideration was given to stopping these projects, but the revenue implications would prove to be inhibitive with large costs being incurred and no asset at the end;

- Partially Legally Committed Projects: These are projects that have some level of commitment against them but still have significant scope to not be progressed;

- Projects with indicative budgets: These are projects that are currently in their infancy in terms of total spend and the level of commitment for the Council to progress.

The forecast outturns for Quarter 2 represent a point in time in this programme review process and are strongly influenced by the time lost to projects which were on already on-site during lockdown, or had been expected to be. The work to reprofile project finances is on-going, and these reviews will have to continue as the continuing impact of the pandemic manifests itself, with the risk of further lockdowns, within projects. It is accepted that this will be very difficult to predict both in terms of project cost and risk transfer.

Housing Capital Programme

As detailed above in the General Fund Capital programme Covid-19 Pandemic has meant very little physical progress was achieved on projects during the first quarter of 2020/21. This is due to sites being closed for the New Homes Programme and constraints around undertaking work in tenant's houses.

Assumptions have been made on the likely profile of spend during 2020/21 splitting out the categories between the rolling programme and new build. The rolling programme has experienced significant delays due to COVID-19 with Building Services responding only to emergency works and voids. As detailed in the Capital Programme Committee progress reports on the various new build programmes work has restarted on both the Wellheads and Summerhill sites, a three-month delay has been factored into forecast. Ongoing monitoring of all projects is undertaken throughout the year, as the year progresses the impact on the programme will become clearer.

Housing Capital Programmes	**Approved Budget**	**Expenditure to date**	**Forecast Expenditure**
As at 30 September 2020	**£'000**	**£'000**	**£'000**
Compliant with the tolerable standard	1,435	240	1,435
Free from Serious Disrepair	10,479	1,611	5,752
Energy Efficient	10,863	1,977	4,156
Modern Facilities & Services	2,385	71	596
Healthy, Safe and Secure	5,004	615	2,093
Non Scottish Housing Quality Standards			
Community Plan and Local Outcome Improvement Plan	4,295	935	825
Service Expenditure	4,011	205	4,011
2000 New Homes Programme	31,358	11,409	27,234
	69,830	**17,063**	**46,102**
less 11% slippage	(7,681)		
Net Programme	**62,149**	**17,063**	**46,102**

Capital Funding			
Borrowing	(22,991)	0	(13,444)
Second Homes/Council Tax funding	(9,306)		(9,306)
SG Grant - Buy Back/New Build	(5,500)		(5,500)
Capital Funded from Current Revenue	(24,352)	(17,063)	(17,852)
Total	(62,149)	**(17,063)**	**(46,102)**

Common Good

As at 30 Sept 2020	Full Year Budget 2020/21 £'000	Actual Expenditure £'000	Variance from Budget £'000
Recurring Expenditure	2,879	3,168	289
Recurring Income	(3,678)	(3,678)	0
Budget after Recurring Items	**(799)**	**(510)**	**289**
Non Recurring Expenditure	360	904	544
Non Recurring Income	0	0	0
Net (Income)/Expenditure	**(439)**	**394**	**833**
Cash balances as at 1 April 2020	**(30,299)**	**(30,299)**	
Net (Surplus)/Deficit for year to date	(439)	394	
Net Capital Receipt		(3,970)	
Cash Balances as at 30 September 2020	**(30,738)**	**(33,875)**	
Recommended Cash Balances	**(30,017)**	**(33,870)**	

Notes

- There are various areas of underspend due to the cancellation of many events across the City, such as the Highland Games, Tour of Britain, Civic Receptions and the annual Fireworks Display because of the Covid pandemic.
- Additional costs include the expenditure approved by the Urgent Business Committee on 6 May 2020 and 30 June 2020:
  a. Lord Provosts Charitable Trust donation - £100k
  b. Financial support to the fund activities as part of rebalancing the General Fund budget for 2020/21 - £706k
- Additional costs have been experienced in the property portfolio held by the Common Good, including non-domestic rates.
- Income is forecast to remain on budget although the level of outstanding invoices is being reviewed regularly to assess the level of risk of non-payment.

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COMMON GOOD
FINANCIAL STATEMENT
FOR THE PERIOD ENDING
30 SEPTEMBER 2020

Contents

Common Good

The Common Good stands separate from other accounts and funds of the Council, and could be said to originate in the grant of freedom lands by King Robert the Bruce in 1319. The Common Good is corporate property and must be applied for the benefit of the community as the Council thinks fit. It is invested in land and buildings, such as industrial estates and farms, with any surplus being placed on cash deposit with other local authorities, building societies and the Council's Loans Fund.

Movement in Reserves Statement

	Common Good Fund £'000	Reserves Fund £'000	Total Common Good £'000
Balance at 31 March 2020	**(124,081)**	**(68)**	**(124,149)**
Movement in Reserves during 2019/20			0
(Surplus) or Deficit on provision of services	(196)	0	(196)
Total Comprehensive Expenditure and Income	**(196)**	**0**	**(196)**
Balance at 30 September 2020	**(124,277)**	**(68)**	**(124,345)**

Comprehensive Income and Expenditure Statement

	Quarter 2, 2020/21			
	Gross Expenditure £'000	Gross Income £'000	Net (Income) Expenditure £'000	Notes
Grants & Contributions to External Organisations	266		266	
External Organisations Rents	56		56	
Promoting Aberdeen	100		100	
Grants/Services Provided by Aberdeen City Council	26		26	
Civic Service Funding	203		203	
Duthie Park HLF	0		0	
Specific Projects	545	(10)	535	
Earmarked Reserves	5		5	
Cost Of Services	**1,201**	**(10)**	**1,191**	1
Other Operating Expenditure			0	2
Financing and Investment Income and Expenditure			(1,387)	3
(Surplus) or Deficit on Provision of Services			**(196)**	
(Surplus) or Deficit on revaluation of investment property			0	4
Total Comprehensive Income and Expenditure			**(196)**	

Notes

1. This is project expenditure to 30 September 2020.
2. This reflects any gains or losses on the disposal of assets during the year. Disposals will be accounted for at year end.

3. This reflects income receivable from investment land and properties net of associated expenditure.
4. The revaluation of investment property will be undertaken in Quarter 4.

Balance Sheet

31 March 2020 £'000				30 September 2020 £'000	Notes
93,850		Investment Property		93,850	1
93,850		**Long Term Assets**		**93,850**	
29,707		Investments in Aberdeen City Council Loans Fund		33,923	2
0		Investment Property Held for Sale		0	3
1,079		Short Term Debtors		(3,133)	4
30,785		**Current Assets**		**30,791**	
(486)		Short Term Creditors		(296)	5
(486)		**Current Liabilities**		**(296)**	
124,149		**Net Assets**		**124,345**	
(124,081)		Common Good Fund		(124,277)	6
(68)		Reserve Fund		(68)	6
(124,149)		**Total Reserves**		**(124,345)**	

Notes

1. The revaluation of investment property will be undertaken in Quarter 4, at which time this figure will be updated.
2. Reflects current cash balances held following transactions to 30 September 2020.
3. Will be reviewed and updated accordingly in Quarter 4.
4. Based on transactions to 30 September 2020.
5. Based on transactions to 30 September 2020.
6. Reflects the accounting value of the funds, based on transactions to 30 September 2020.

GROUP ENTITIES PROJECTED FINANCIAL POSITION FOR THE YEAR 2020/21

Aberdeen City Council holds a financial interest in a number of Subsidiaries, Associates and Joint Ventures. The most significant of these are included in the Council's Group Accounts.

The table below outlines the entities to be consolidated into the Council's Group Accounts, and details the Council's share of "ownership" of each of the entities.

For the Financial Year 2020/21	ACC Control	ACC Commitment to meet accumulated deficits	Annual Turnover
	%	%	£m
Subsidiaries			
Common Good	100	100	4
Trust Funds	100	100	0
Sport Aberdeen Limited	100	100	14
Bon Accord Care Limted	100	100	23
Bon Accord Support Services Limited	100	100	31
Joint Ventures			
Aberdeen Sports Village Limited	50	50	6
Aberdeen City Integration Joint Board	50	50	332
Associates			
Grampian Valuation Joint Board	39	39	5

The Council has agreed to include information only when it has been reported through a group entities governance structure.

For the Financial Year 2020/21	Reporting Date	Surplus/(deficit) attributable to the Council at Reporting date	Forecast Surplus/(Deficit)	Comment
		£'000	£'000	
Subsidiaries				
Common Good	30.09.20	196	(833)	
Trust Funds	-	-	-	Information available at 31.03.21
Sport Aberdeen Limited	31.08.20	380	(300)	
Bon Accord Care Limited and Bon Accord Support Services Ltd	30.09.20	260	0	Break even position forecast
Joint Ventures				
Aberdeen Sports Village Limited	31.08.20	114	227	
Aberdeen City Integration Joint Board	30.06.20	0	0	Break even position forecast
Associates				
Grampian Valuation Joint Board	30.06.20	506	(631)	

The notes below summarise the current financial position in respect of each of the group entities.

Subsidiaries

Common Good

The Common Good is corporate property and must be applied for the benefit of the community as the Council thinks fit. It is invested in land and buildings, such as industrial estates and farms, with any surplus being placed on cash deposit with other local authorities, building societies and the Council's Loans Fund.

The Common Good is currently forecasting a deficit of £833k for 2020/21 mainly as a contribution to Aberdeen Performing Arts funding that was approved at Urgent Business Committee on 6 May 2020 – see Appendix 2. The financial statements for the quarter is shown in Appendix 3.

Trust Funds

The Council is responsible for the administration of various trusts created by bequest or evolved through history or by public subscription which are utilised for a variety of benefits such as education and social work, charitable purposes, religious instruction, medical institutions, the upkeep of public works and also the administration of the Guildry. The money earned from the investments of the Trusts is used to provide grants, prizes and dux medals for school children and requisites for clients in Social Work homes.

Financial information for the Trust Funds will be available at year end, 31 March 2021. They are not expected to have a material impact on the Council's financial position for 2020/21.

Sport Aberdeen

Sport Aberdeen Limited is a charity and constitutes a limited company limited by guarantee. The principal activity of the company is the provision of recreation leisure facilities and services on behalf of Aberdeen City Council in accordance with key priorities. Although Aberdeen City Council does not own the entity it is considered that control representing power to govern exists through agreements in place and that Sport Aberdeen Limited operates as a structured entity of the Council. The results for the period ended 31 August 2020 show a surplus of £454K. A deficit of £300k is forecast for the financial year 2020/21.

Bon Accord Care and Bon Accord Support Services

Bon Accord Care Limited (BAC) and Bon Accord Support Services Limited (BASS) are private companies limited by shares which are 100% held by Aberdeen City Council. Bon Accord Care provides regulated (by the Care Inspectorate) care services to Bon Accord Support Services which in turn delivers both regulated and unregulated adult social care services to the Council.

The consolidated position of Bon Accord Care and Bon Accord Support Services shows an overall profit of £260k for the period ended 30 September 2020, compared to a budgeted deficit of £128k. This represents a positive variance of £389k from budget. An overall break-even position for the financial year 2020/21 is currently forecast.

Joint Ventures

Aberdeen Sports Village Limited (ASV)

ASV Ltd is a company limited by guarantee and registered as a charity. It is a joint venture company owned equally by the Council and The University of Aberdeen. ASV Ltd was incorporated in 2007 and its objectives are to provide sports and recreational facilities, including elite sports facilities for the use of both students and staff of the University of Aberdeen and the general public, and the advancement of public participation in sport.

The financial year end for ASV Ltd is not aligned to the Council's with its year end being 31 July. The latest available financial information for Aberdeen Sports Village is for the first month, the period ended 31st August 2020. This shows that ASV Ltd reported a surplus of £227k. The share of the surplus being attributed to the Council is £114k.

Aberdeen City Integration Joint Board (IJB)

The IJB was established by order of Scottish Ministers on 6 February 2016, becoming fully operational from 1 April 2016. The IJB is responsible for the strategic planning, resourcing and operational delivery of all integrated health and social care within the Aberdeen City area. This has been delegated by the partners, Aberdeen City Council and NHS Grampian.

As at 30 June 2020, the IJB were reporting an overspend of £5.4m, and forecasting a full year overspend of £11.4m. This is due to forecast direct Covid Costs of £7.6m, Indirect Covid Costs of £3.5m, and an overspend on mainstream funds of £352k. An allocation of £9.1m funding was confirmed by the Scottish Government on 29 September 2020, with a further allocation likely in November 2020 subject to the provision of information by the IJB. A break-even position is being forecast, on the assumption that further funding will be received. There remains a risk that the required amount of funding may not be received and that any remaining overspend will require to be met by the Council and NHS Grampian.

Further analysis of the IJB variance can be seen in Appendices 1 and 2.

Associates

Grampian Valuation Joint Board

The Grampian Valuation Joint Board was created following Local Government Re-organisation on 1 April 1996, under the Local Government (Scotland) Act 1994 and covers the local government areas of Aberdeenshire, Aberdeen City and Moray.

The Board has reported a surplus of £506k as at 30 September 2020 compared to a budgeted deficit of £46k at this stage of the year, representing a better than expected variance of £551k.

The main reasons for the underspend as at Q2 are due to savings in employee costs, and £33k more received in government grants than budget. In addition to this further savings have been realised in supplies and services costs. The board is forecasting a deficit of £631k for the financial year 2020/21, this will be accommodated with the use of operating reserves.

ABERDEEN CITY COUNCIL

COMMITTEE	City Growth and Resources
DATE	28 October 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Medium Term Financial Strategy for the Council's General Fund
REPORT NUMBER	RES/20/200
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Jonathan Belford
TERMS OF REFERENCE	1.2

1. PURPOSE OF REPORT

1.1 The purpose of a medium term financial strategy (MTFS) is to pull together in one place all known factors affecting the financial position and financial sustainability of an organisation over the medium term. To draw out the scenarios that the Council faces and to describe the approach to addressing the conclusions.

2. RECOMMENDATION(S)

That the Committee: -

2.1 Approve the Medium Term Financial Strategy for the General Fund as outlined in Appendix 1;

2.2 Note that the 2021/22 Budget will be discussed by the Council on 2 March 2021;

2.3 Instruct that the Chief Officer – Finance consider how the Council could develop its financial resilience with reference to the Cipfa Financial Resilience Index, reporting back as part of the budget setting process.

3. BACKGROUND

3.1 The Council has in place medium term financial planning, that relies on a number of documents, including the underpinning review of the Council finances as part of the budget setting process.

3.2 In the changing and increasingly more complex and uncertain environment that the Council is operating in I have brought together the various components into a single document, the Medium Term Financial Strategy for the Council's General Fund, attached as Appendix 1.

3.3 This is to provide the Committee with an overview of the financial situation and how this is evolving in these uncertain times, to consider how sensitive the financial situation is ‘to changes in income and exposure to demand and inflation.

3.4 The strategy draws on a range of information and data and relies on scenario planning to express a range of financial consequences that will only become certain with actual experience and with more and better information over time.

3.5 The strategy sets out a range of principles for income, expenditure and capital investment that are designed to support financial resilience and financial sustainability, these are included at paragraphs 1.13 to 1.15 of the Strategy.

3.6 The question of financial resilience is one that has been particularly important this year and leads me to recognise the value of work that had been done prior to 2020/21 to have a strong balance sheet, effective performance reporting and improved year end closure plans that have reaped rewards when dealing with the Covid-19 impact. The Strategy recommends exploring how financial resilience could be developed and to do this makes reference to the Cipfa Financial Resilience Index that has been developed for English Local Authorities. The Council should consider how it can develop its approach and the report recommends this is done and reported on as part of the budget process.

4. FINANCIAL IMPLICATIONS

4.1 There are none arising directly from the report, the Medium Term Financial Strategy sets out the financial implications for the Council’s General Fund and will be the financial framework within which the annual budget setting process will be undertaken.

5. LEGAL IMPLICATIONS

5.1 While there are no direct legal implications arising from the recommendations of this report, there are additional reporting requirements due to the London Stock Exchange listing, for example the requirement to notify them ahead of publication of the report.

5.2 The Council has a statutory duty to set Council Tax and balanced budget and the Strategy sets out the challenges and parameters within which this will have to be done.

6. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	Failure to recognise the consequence of the economic and local circumstance	L	The Strategy is in place to look forward into the medium term and plan for the future to improve the likelihood of resource allocation being

	could lead to poor use of resources		aligned to strategic outcomes.
Compliance	Failure to set balanced budget.	L	A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March.
Operational	None identified		
Financial	The assumptions are insufficiently sensitive to the situations that might arise, resulting in a larger financial challenge.	M	The strategy is based on scenarios that present a range of potential impacts for the Council's finances. It will be kept under review.
Reputational	There is a risk that through the reduction of expenditure the Council may be criticised that spending isn't in line with public expectation of service delivery.	M	The Council has continued to address priority spending areas, and to protect people. It is equally accountable for the use of public funds and to ensure that they are managed robustly. There are a wide range of unknown external factors that require to be balanced to deal with the current operating environment. Regular reporting during the year provides an ongoing description of the position the Council is in and the situations it faces.
Environment / Climate	None identified		

7. OUTCOMES

COUNCIL DELIVERY PLAN	
	Impact of Report
Aberdeen City Council Policy Statement	Financial planning, budget setting and resource allocation are all enablers for the delivery of the outcomes and regular performance reviews ensure that the Council's stewardship and financial management are robust.
Aberdeen City Local Outcome Improvement Plan	
Prosperous Economy Stretch Outcomes	The Council continues to invest in front-line services across its statutory responsibilities as well as capital

	infrastructure. Investment in the city will have a positive impact on the economy.
Prosperous People Stretch Outcomes	Robust and effective management of the Council's finances will ensure that services can continue to be provided.
Prosperous Place Stretch Outcomes	Investment will enhance the place by creating a better and more vibrant city in which to live.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	not required
Data Protection Impact Assessment	not required

9. BACKGROUND PAPERS

None.

10. APPENDICES

Appendix 1 – Medium Term Financial Strategy for the Council's General Fund

11. REPORT AUTHOR CONTACT DETAILS

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MEDIUM TERM FINANCIAL STRATEGY FOR THE COUNCIL'S GENERAL FUND

ABERDEEN
CITY COUNCIL

Contents Page

1. INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) is a 6 year plan which sets out our commitment to provide services that meet the needs of people locally, and represents good value for money. The MTFS is aligned to the Council Delivery Plan, which in turn aligns the Council's commitments to the vision and priorities of the Local Outcome Improvement Plan.

1.2 The Local Outcome Improvement Plan's (LOIP) vision is:

'A place where all people can prosper'

1.3 The Council's programme of change is centred around three areas:

Our purpose (what our business is): To ensure the alignment of all Council strategies and plans to the Local Outcome Improvement Plan's (LOIP) vision 'A place where all people can prosper' as well as ensuring clear delivery plans for the Council's own set of strategies and priorities.

How we do business: The modernisation and transformation of how we deliver our services through making best use of technology.

How we behave as an organisation: A focus on the Council's culture.

1.4 The key objectives of the MTFS are as follows:

- To ensure that effective financial planning and management contributes to the Council achieving the priorities in the Council Delivery Plan;
- To direct resources to the Council's priorities to support the achievement of the Council Delivery Plan;
- To maximise income to support the priorities of the council;
- To analyse budget performance to assess the effectiveness of resource allocation;
- To continue to improve value for money - managing our resources as efficiently as possible; streamlining processes and systems; getting better value from commissioning and procurement; whilst seeking to minimise the impact of budget savings on priority services; and
- To ensure the Council's financial standing is prudent, robust, stable and sustainable.

1.5 The merits of medium and long-term financial planning are well documented[1] and a key component of the council's strategic framework, building on the medium term focus that has underpinned annual budget setting. The aim of a medium term financial strategy (MTFS) is to pull together in one place all known factors affecting the financial position and financial sustainability of an organisation over the medium term.

[1] Example, CIPFAs Looking Forward – Medium Term Financial Strategies for the UK Public Sector, 2016

1.6 Supporting financial planning relies on national and local data, from which assumptions emerge, that can be applied to a range of scenarios. Due to the nature of a local authority, it is not in control of all the determinants of its income and cost base, and crucially this includes the financial support provided from public funds. Many statutory services are provided free at the point of delivery and therefore the shape of services is determined by how much subsidy (grant) is provided. Complexity multiplies as the statutory duties and commitments increase.

1.7 The ability of a local authority to develop medium and long-term financial planning is significantly influenced by the following factors:

- the current ratio between locally and nationally determined levels of taxation and fees and charges; and
- whether government provides certainty re levels of government grant beyond the immediate next financial year

1.8 Given events which have occurred in 2020 because of a global health pandemic, the task of medium and long-term financial planning has been made even more challenging. Governments across the world have invested significantly in financial rescue plans to mitigate the economic impact of the public health measures introduced to combat the virus. Whilst attention rightly remains on managing the response, attention is also on supporting economic recovery. Economic recovery will be vital if governments are to be able to repay the borrowing incurred to support the financial rescue plans currently in place.

1.9 Both the UK and Scottish Government will be required to make political choices in terms of future funding both in the short, medium and long term – all of which will have a bearing on the council's own short, medium and long term financial plans.

1.10 This medium term strategy sets out assumptions regarding the ongoing short term implications of Covid-19 in terms of financial year 2021/22 and then goes on to make some informed assumptions for financial years 2022/23 – 2026/27. It is important to note that Scottish Parliament Elections are still scheduled to take place in May 2021 and of course, it would be for any new government to determine its own priorities for the short, medium and long term. Therefore, it is recommended that this plan be revisited following the 2021 Scottish Parliamentary elections.

1.11 The Council should recognise that with so much of its income outside of its control, the assumptions that underpin the MTFS cannot, by definition, be exact, they are subject to refinement and change over time. Therefore, a series of scenarios should be used to describe a range of income possibilities. This current draft MTFS utilises 3 scenarios proposed by the Office for Budget Responsibility. These scenarios should be refreshed regularly as part of the budget setting and strategic planning processes.

1.12 The detail contained in this document leads to the conclusion that the following principles are needed to guide our approach to MTFS.

1.13 Principles the council should follow for planning its income are:

I. Be prudent about the level of Scottish Government funding that will be provided in the local government settlement both in short, medium and long term.

II. Be prudent in the financial assumption regarding the funding of national priorities and commitments.

III. Exercise the discretion it has over local taxation and increase the Band D charge for Council Tax annually to support future budgets.

IV. Account for any income source that is non-specific as a corporate resource to support the whole revenue budget.

V. Apply its Service Income Policy to support the effective and sustainable delivery of services where charges can be applied and exercise that discretion annually and collect as much income as is rightfully owed.

VI. Identify and evaluate emerging discretionary powers on a regular basis to determine their applicability to Aberdeen City.

VII. Recognise the ongoing financial risk to the council associated with Covid-19 until an agreed end point is reached for the global pandemic.

VIII. Apply its approved Reserves Policy, retaining recommended uncommitted General Fund Reserves and thereby avoiding one-off income streams.

1.14 Principles the council should follow for planning its expenditure are:

II. Scenarios must be developed and the Chief Officer – Finance will, in conjunction with the Extended Corporate Management Team (ECMT), establish appropriate financial assumptions to apply.

III. The council should continue to develop its approach to strategic resource allocation to further shape where and how resources are deployed. Through this approach we will attain greater understanding of how resources align to outcomes and the related impact and consequences of our decisions.

IV. Local constraints should be minimised wherever possible to provide as much flexibility to achieve resource shift and deliver savings.

V. Ensure an alignment between commissioning intentions, service standards and budget allocations thereby ensuring council focuses on the very highest of priorities and on the most important outcomes.

VI. Where funding levels cannot sustain existing commissioning intentions and service standards, a clear set of decommissioning intentions and service standard reductions will be submitted to council.

VII. The scale of service redesign will have to increase to address the emerging financial scenarios.

VIII. Achieving the scale of savings needed is not possible from small service budgets. There must be a contribution from the large services if financial sustainability is to be addressed.

IX. Slicing a proportion of the budget from all areas of the council is also counterproductive and does not address delivering outcomes. Salami slicing savings are to be avoided.

X. Capital investment revenue implications must be incorporated into scenario plans, both from ongoing operational delivery and capital financing perspectives.

1.15 Principles the council should follow for planning its capital investment are:

I. Revenue implications of capital investment opportunities must be identified and agreed with the Chief Officer – Finance to support the council's scenario planning.

II. Capital investment expenditure must be prudent, affordable and sustainable, as defined by the Prudential Code.

III. External funding opportunities should be identified and pursued to support approved capital investment.

IV. Priority must be given to the projects that will deliver the greatest return, and this can be measured both financially and socially. A business case must be used to document this analysis.

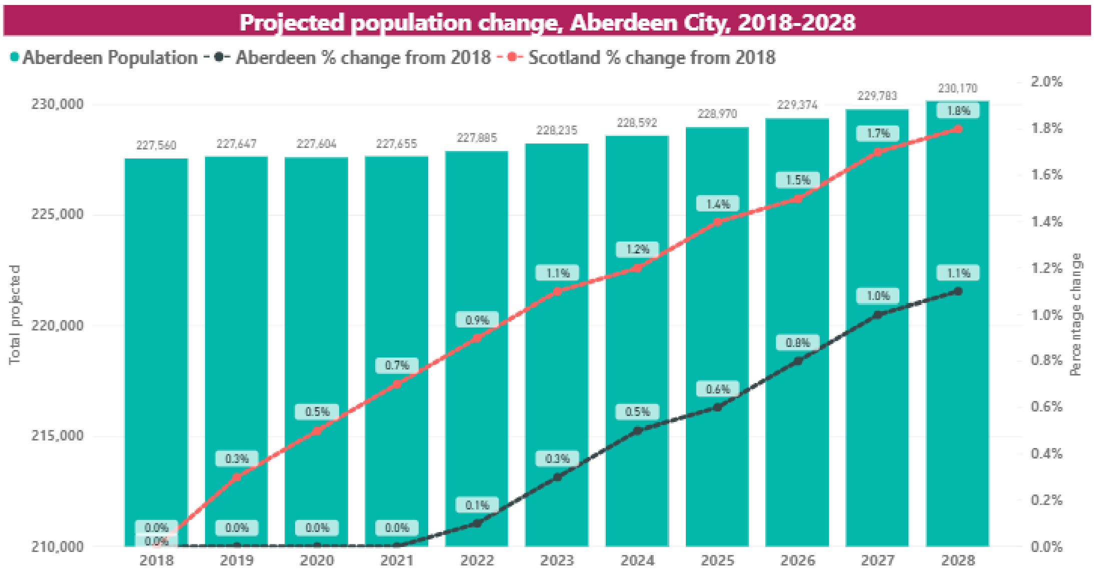
V. Care needs to be taken of the unknown aspects arising from the coronavirus pandemic and the potential additional costs that may emerge. The council should consider how it creates flexibility in the capital programme to increase contingencies.

VI. The financial, legal and reputation implications of proposing to withdraw from legally or partially committed capital projects within the capital programme must be fully considered and documented.

1.16 Aberdeen - Background and Context

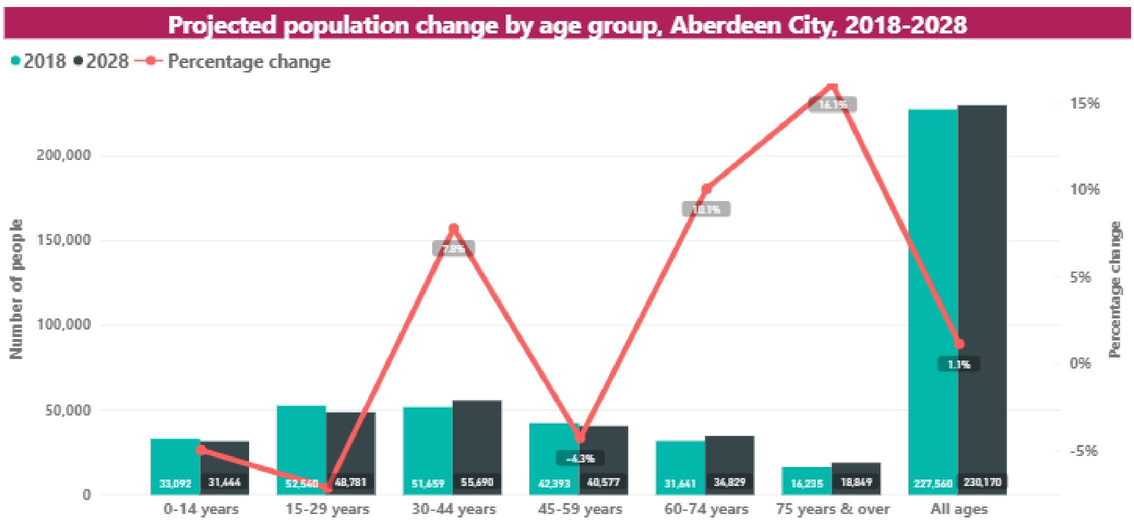
1.16.1 Some of the financial challenges affecting the financial sustainability of all local authorities is the pressure from demographic change and corresponding rising demand. The following section highlights some of the main sources of demand and projected future pressures.

1.16.2 Population - The estimated population of Aberdeen in 2019 was 228,670. Based on recent trends, the total population of the city is projected to increase by more than 11,000 (1.1%) by 2028. This projected increase is lower than the projection for Scotland as a whole, which is 1.8%. This projection is shown below.



Source: National Records of Scotland, Population Projections for Scottish Areas (2018-based). Updated March 2020.

1.16.3 The age structure of the City's population is projected to show a decline of 5% in those aged 0 -14 years and 7% of those aged 15 – 29 years over the next 10 years. Whilst increases of 10% and 16% respectively are projected for those aged 60 – 74 years and those aged 75+ years. This brings different challenges for the distribution of resources.

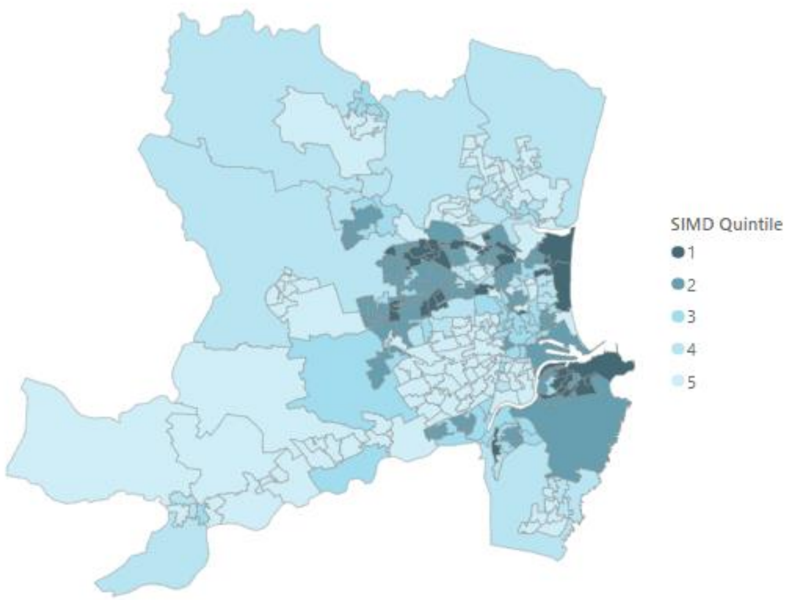


Source: National Records of Scotland, Population Projections for Scottish Areas (2018-based). Updated March 2020.

1.16.4 Housing - There is a considerable demand for housing in Aberdeen. Whilst house prices have fallen in recent years, they remain high. Supply of council and social new build properties has recently boosted supply. Recent years have also seen significant increases in supported accommodation both for older people and people with disabilities.

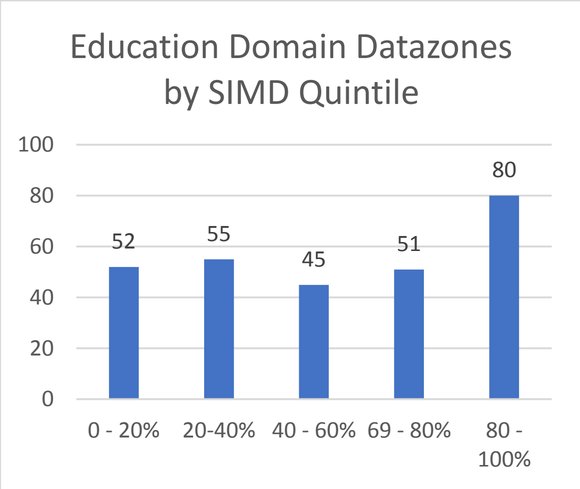
1.16.5 Deprivation - Within Aberdeen there are areas of significant deprivation and inequality. Aberdeen continues to have deprivation 'hot spots' that are amongst some of the most deprived areas in the country and these can lie adjacent to some of the least deprived areas. In Aberdeen, 29 areas are among the 20% most deprived in Scotland in 2020, 7 more than in 2016. Highest levels of deprivation are recorded for crime, housing and education domains. Whilst deprivation is a key driver of demand, it has, proportionately, a smaller impact on funding allocated to the council.

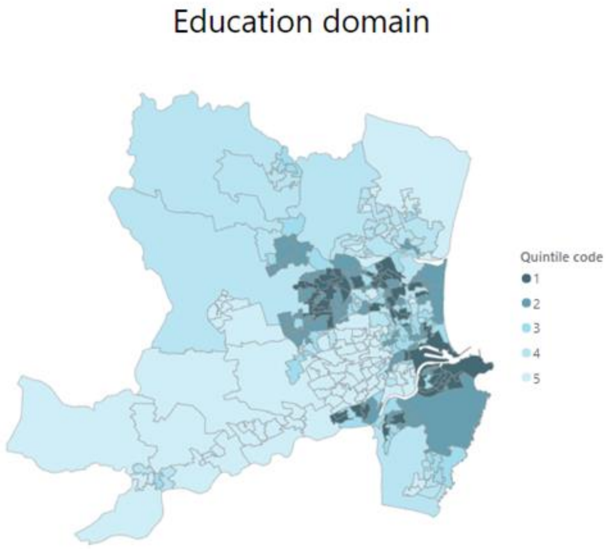
Areas of Multiple Deprivation 2020



1.16.6 Education - Significant investment has been made, and continues, to modernise the city's school buildings. In line with falling population projections and the potential increase in digital methods of learning, the school estate will continue to be reviewed to ensure it matches future levels and nature of demand. Education is the single largest area of spend for the Council and the majority of funding received for schools is based on the population of children and young people. School rolls have increased over recent years, however, the long term projection is for a reduction in school age children. Should that occur, there will be a significant and corresponding impact on funding levels. Recent years have also seen an increasing trend in the number of pupils with additional support needs and a high demand for child and adolescent mental health services.

1.16.7 There is significant variation in educational outcomes across different areas in Aberdeen with 52 datazones being classed within the 20% most deprived in Scotland for the education domain of the Scottish Indices of Multiple Deprivation in 2020.





1.16.8 Children's Services - Aberdeen has more than 500 children who are "looked after" by the authority (LAC). This is, proportionately slightly lower than the national average (2019 comparisons), however, a higher rate of the city's LAC are placed either with foster carers or in residential accommodation and a significantly higher proportion of Aberdeen's LAC have a recorded disability. The city also has a higher proportion than the national average of children on the child protection register (2019 comparisons).

1.16.9 Employment - Aberdeen has had historically high employment, however, over 30,000 jobs are estimated to be at risk in Aberdeen. Unemployment is likely to rise considerably beyond 10% this year. Oil and Gas UK estimate 30,000 jobs in the sector in the UK could be lost as a result of the coronavirus pandemic and the low oil price with around a third of these in the North East.

Proofed Unemployment Calculation; Jan 2019-Dec 2019			
	Aberdeen City	Aberdeenshire	Aberdeen City & Shire
Economically Active Aged 16 Plus	132,400	142,200	274,600
Unemployment aged 16 plus	4,200	3,800	8,000
Unemployment Rate	3.2%	2.7%	2.9%
5 % Unemployment Range	6,620	7,110	13,730
10% Unemployment Range	13,240	14,220	27,460
15% Unemployment Range	19,860	21,330	41,190

1.16.10 The impact of COVID-19 social distancing measures had an immediate impact on the labour market. From 1st March new Universal Credit claimants in Scotland rose from a daily average pre-crisis of 800 to 12,002 in May.

1.17 Increased financial risk and sensitivity – what Covid-19 means for the immediate short-term

1.17.1 It is impossible to say with any degree of certainty just how long the Covid-19 pandemic will last and when we can expect it to come to an end. There is debate about how we should define “the end” - 2 definitions exist each with a separate timeline:

- An epidemiological end point when herd immunity is achieved; and
- A transition to a form of normalcy characterised by vaccination of the highest risk population, accurate testing, improved treatments.

1.17.2 We know that the need for health and social care undergoes large seasonal fluctuations, peaking in the winter. The size and severity of any influenza epidemic this winter is very difficult to estimate. But regardless, a winter influenza epidemic will further compound the pressures being felt by the Covid-19 pandemic.

1.17.3 As both the UK and Scottish governments consider their financial plans for 2021/22 and beyond, they will have to make assumptions about the course the pandemic will take over the financial year 2021/22. The World Health Organisation is reporting that 11 vaccine candidates are in final Phase III trials and both China and Russia have begun public use of vaccines in limited quantities. A high level of external uncertainties – political, social and epidemiological - will however likely remain into 2021.

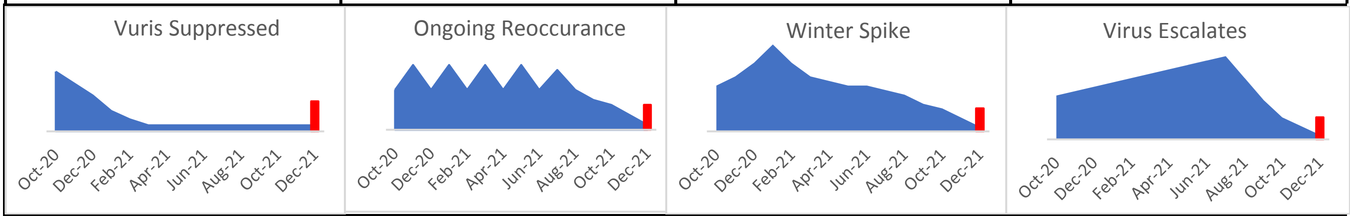
1.17.4 The council’s scenario planning in relation to the epidemiological path of Covid-19, and the related impact of that on the City and Council services, has been ongoing. In October 2020, the scenarios and responses have been updated to reflect anticipated and potential impacts moving forward.

Covid-19 Scenarios

1.17.5 At the time of this review, 2 October 2020, scenario 2 is in operation. A national and local increase in cases has been recorded following the start of the further and higher education term. Restrictions vary across Scotland and are being adjusted in response to outbreaks.

Table 1: Covid-19 Short-Term Scenarios

1. Virus Supressed	**2. Virus recurrence - Responsive Restrictions**	**3. Virus recurrence – Planned Winter Restrictions**	**4. Pandemic escalation**
Current restrictions are effective, restrictions are relaxed, and the Scottish Government Route Map implemented in full	*Local restrictions continue to be modified regularly in response to multiple outbreaks*	*Risk assessment leads to planned proactive national restrictions over winter 2020/21 for a defined period*	*Full lockdown is reintroduced for an undetermined period due to consistently high infection rates*



Potential Direction of Travel for Route Map Phases																			
0	1	2	3	4	0	1	2	3	4	0	1	2	3	4	0	1	2	3	4

The end of the Pandemic (indicated above)

1.17.6 Latest advice suggests that a vaccine could become widely available by mid-2021. However, there is, of course, much uncertainty on the production, distribution and efficacy of a vaccine. For this review it is assumed that the epidemiological effects of Covid-19 will remain significant until at least the end of 2021.

Response and Restrictions

1.17.7 The Scottish Government Route Map restrictions applied as the path of Covid-19 develops. It is likely that these will be the restrictions which continue to be used, either relaxed or imposed, as the situation determines. At the time of writing , it is expected that the Scottish Government will be publishing a 5 tier system of levels of intervention. The effectiveness of, and need to increase and reduce, interventions is closely linked to movement in Scotland's R number. If this remains above 1 it is not anticipated that restrictions will be relaxed and further measures could be expected.

1.17.8 The table below lists the main levers identified within the Route Map. Phase 0 describes "Full Lockdown". Phase 4 describes the full implementation of the Route Map. The scale and severity of restrictions described in Phases 1 to 3 may be applied in varied ways depending on the circumstances of each outbreak and the level of assessed risk.

Table 2: Scottish Government Route Map main levers

Phase 0 - Full lockdown	**Phases 1 to 3 – Flexible Levers Used** *(The scale to vary both nationally and locally)*	**Phase 4 – End of Route Map**
• *Contact within own household only.*	• *Restrictions on meeting other households* • *Identification and support for "shielded" individuals* • *Restrictions on public gatherings*	• *Schools, childcare, colleges, universities, all workplaces open and public services operating,*

• *Identification and support for "shielded" individuals* • *No public gatherings.* • *Essential travel only, staying in local area.* • *Schools and childcare closed.* • *Universities and colleges closed.* • *Non-essential workplaces closed.* • *Shopping for necessities, with distancing measures.* • *Closure of non-essential retail, including businesses selling food or drink, entertainment premises and leisure facilities.* • *Non-urgent care health care stopped.*	• *Restrictions on non-essential travel* • *Restricted physical outdoor activity / indoor activity* • *Schools may be open or closed* • *Childcare provision may be restricted to critical* • *Non-essential outdoor workplaces, including construction may have some restrictions* • *Retail restrictions including food outlets, garden centres, takeaway, cafes, street access shops, shopping centres* • *Pubs and restaurants may have restrictions* • *Museums, galleries, libraries, cinemas restricted* • *Direct contact for social work and support services with at risk groups permitted* • *Respite/day care services restricted* • *Household Waste Recycling (centres or collection) restrictions* • *Restrictions on community health inc. mental health* • *Housing moves restricted* • *Visitors to care homes restricted.*	*but in line with public health advice. Service design may be modified, including use of digital services. Remote and flexible working remains encouraged.* • *Mass gatherings resume in line with public health advice.* • *Physical distancing may remain*

1.17.9 The Coronavirus pandemic specific funding announcements made by the Chancellor of the Exchequer, have led to £6.5 billion of additional Barnett Consequentials for Scotland. Almost all of the funding that flows to local government applies to the current financial year 2020/21, a small proportion of education related funding has been committed to the end of the 2020/21 academic year.

1.17.10 The impact for next financial year can be characterised from the local government sector and council perspectives. The speed and scale of economic bounce back economically is crucial to the financial settlement provided to local government, with 100% of the national non-domestic rates (NNDR) income being allocated to local government. If the economic position in 2021/22 means that businesses are unable to create the national income levels, or further reliefs need to be provided to specific sectors of the economy – such as retail, hospitality and leisure this year - then the local government settlement is at serious risk. Pre-Covid-19 NNDR income represented 27% of the total local government funding, but £1bn of reliefs have been funded by UK Government consequentials, if the economic conditions don't exist and grant funding is not allocated then the sector faces potentially massive financial reductions. Further risk arises from the consequences of depressed or falling property valuations from the implementation of the Non Domestic Rates (Scotland) Act 2020, Scotland moving to a three year revaluation cycle, the next being April 2023, based on property valuations on 1 April 2022.

1.17.11 From the council perspective, the continued loss of income is particularly relevant, with car parking income, venue and events income at risk and planning / building consent monies also predicted to be short of normal levels. Much will depend on customer behaviour and the progress through the Route Map. There is also a significantly higher risk associated with the council's arm's length external organisations (ALEOs) if progress along the Route Map is paused, interrupted, or becomes more prolonged. The value of external income they generate to support the size of the organisations may require additional financial commitments from the council.

1.17.12 Expenditure pressures from additional requirements, enhanced guidance and good practice all add to extra facilities costs such as cleaning and protective equipment are obvious pressure points.

1.17.13 To counteract some of the risk, flexibilities confirmed in October 2020 by the Scottish Government, provide levers for local authorities over the course of this and next year. There are three:

1. Capital receipts received in 2020/21 and 2021/22 can be used to meet revenue funding pressures caused by Covid-19 impact, recognising that the value and likelihood of capital receipts may be affected by the pandemic too. The Council has current commitments in relation to voluntary severance and early retirement and transformation costs that must be first met from any capital receipt received.
2. Credit arrangements, for example PPP/PFI service contracts, applying revised international accounting standards that are due to be implemented in 2021/22 could provide scope to make debt repayments included in these contracts over an extended period. The flexibility allows early implementation, in 2020/21 to help mitigate the costs of Covid-19. This is a flexibility that the council should explore as it would bring parity with current capital repayment policy.
3. Loans fund repayment holiday, deferring the planned repayment of debt principal for 2020/21 or 2021/22 (not both years), creating a saving. This is not a cancellation of the money owed, and the council will then face higher payments in future years to repay the missed payment over a period of not more than 20 years. The council should avoid this flexibility as it will add revenue pressure to the medium to long-term financial scenarios.

1.17.14 The Cabinet Secretary for Finance, in granting the flexibilities was clear that this must not be seen as an opportunity to maintain or grow reserves. Local authorities must consider these in order, first consider the additional resources available from capital receipts and the change in accounting arrangements for service concession arrangements before taking advantage of a loans fund repayment holiday.

1.18 Conclusion:

1.18.1 The council's environment is extremely complex and multi-dimensional with significant demand and a high ambition for improvement. This places pressure on the resourcing of all elements of council activity to the desired level and tension between where funds are deployed for best value.

1.18.2 Unexpected and sustained changes to the environment add to these resource allocation decisions. There remains much uncertainty and debate about what constitutes an end to the Covid-19 pandemic and when that will be. Many experts suggest that we will continue to experience recurrences into 2021 and with a vaccine available at some point in 2021, and thereafter we will see a reduction over several years.

1.18.3 Throughout 2020, we have seen a considerable financial injection from government to mitigate the impact of the required public health measures to the virus. Given the commonly held view that the virus will continue into 2021, I am assuming that the financial year 2021/22 will continue to see financial support being provided by the government both to citizens, businesses and public sector bodies.

1.18.4 Drawing from Section 3, at best a prospect of flat cash for the year ahead, however financial constraint applying a downward pressure on the core funding received by the council in the years that follow. This reflecting the anticipated continuation of funding and financial support for the public sector in 2021/22 that will be needed as the pandemic continues.

1.18.5 Council Tax remains the highest value financial lever that the council has, exercising an increase in the rate annually provides opportunity to increase income of a recurring nature although economic growth will have an impact on the value of uncollected sums and the overall rate of change in the number of chargeable properties.

1.18.6 Fees and charges are expected to remain a positive contributor to the council although the impact of ongoing restrictions during 2021/22 and the knock on behavioural changes from our customers will shape large sums of income going forward.

1.18.7 Proposals for a draft 2021/22 budget will be submitted to council's budget meeting in March.

2. THE FUNDING CONTEXT BEYOND 2021/22

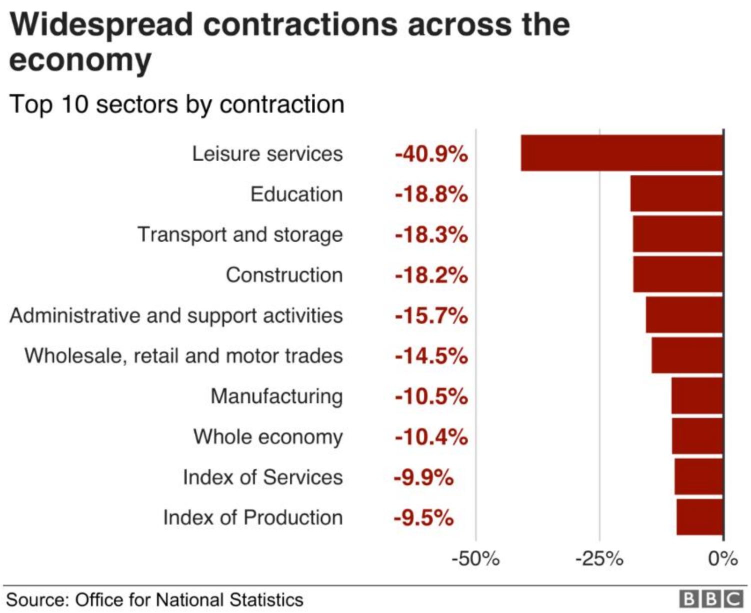
2.1 Economic Outlook

2.1.1 2020 will undoubtedly be seen as a year when everything changed. An unprecedented government intervention in response to the Coronavirus pandemic brought about global changes in how we live our lives and the corresponding consequences on business and the economy

2.1.2 Data from the Socio-Economic Rescue Plan[2], presented to the council's Urgent Business Committee on 30 June 2020, provided the backdrop for the shape and future of the economy, how it may or may not recover and over what timescale.

2.1.3 This included monthly Gross Domestic Product (GDP) data from March to April 2020 that showed the impact of the pandemic on the economy, headline being a fall in GDP in April 2020 that was the biggest shock in the economy since records began, when UK GDP output fell by 20.4%. Sectors reliant on physical distance restrictions were fundamentally challenged including leisure services, education and transport and as Chart 1, below shows.

Chart 1:

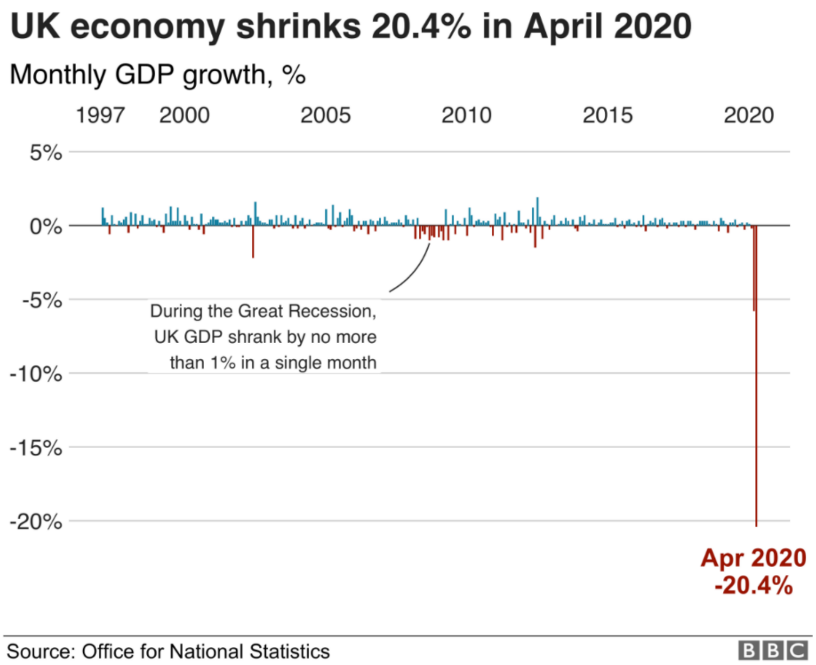


2.1.4 The Office for National Statistics (ONS) have described the April falls as "historic" and affected virtually all areas of activity with shutdown restrictions coming into force. They have then continued.

2.1.5 Just how historic this has been is indicated, by comparison, in the last economic shock (2008/09 financial crisis), the largest fall in any single month was 1%. Illustrated by Chart 2.

[2] http://councilcommittees.acc.gov.uk/ieListDocuments.aspx?CId=334&MId=7423&Ver=4 Item 11 on agenda.

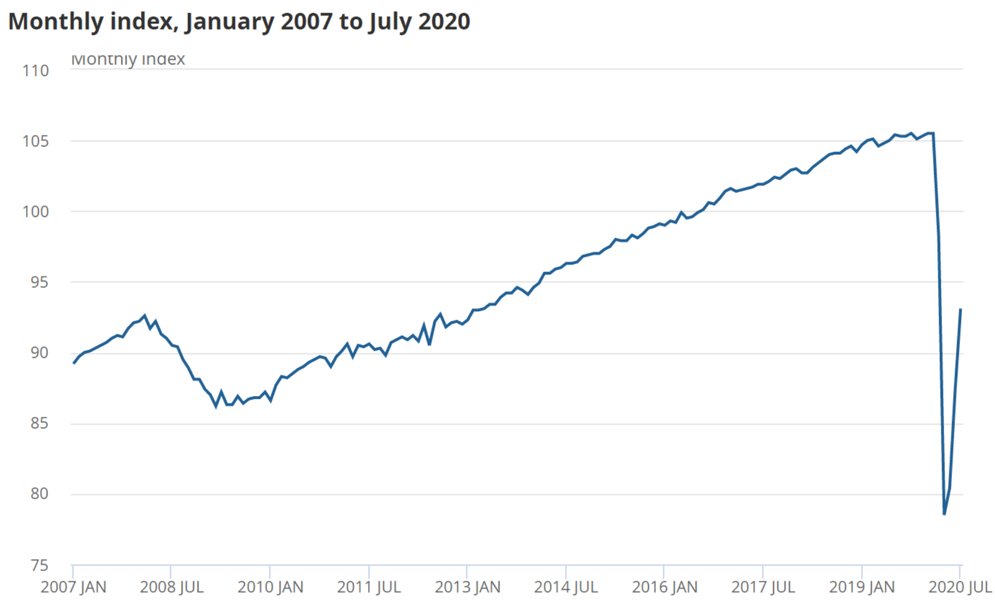
Chart 2:



2.1.6 The challenge of forecasting what happens next is not to be understated and it is clear from the latest Office for National Statistics (ONS) when they report for July that "GDP estimates for July 2020 are subject to more uncertainty than usual as a result of the challenges we faced estimating GDP in the current conditions."

2.1.7 The ONS July monthly estimate indicates that UK GDP grew by 6.6% in July 2020, the third monthly increase, but it has still only recovered just over half the lost output caused by the coronavirus. It is shown in Chart 3 below.

Chart 3:



Source: ONS, published September 2020

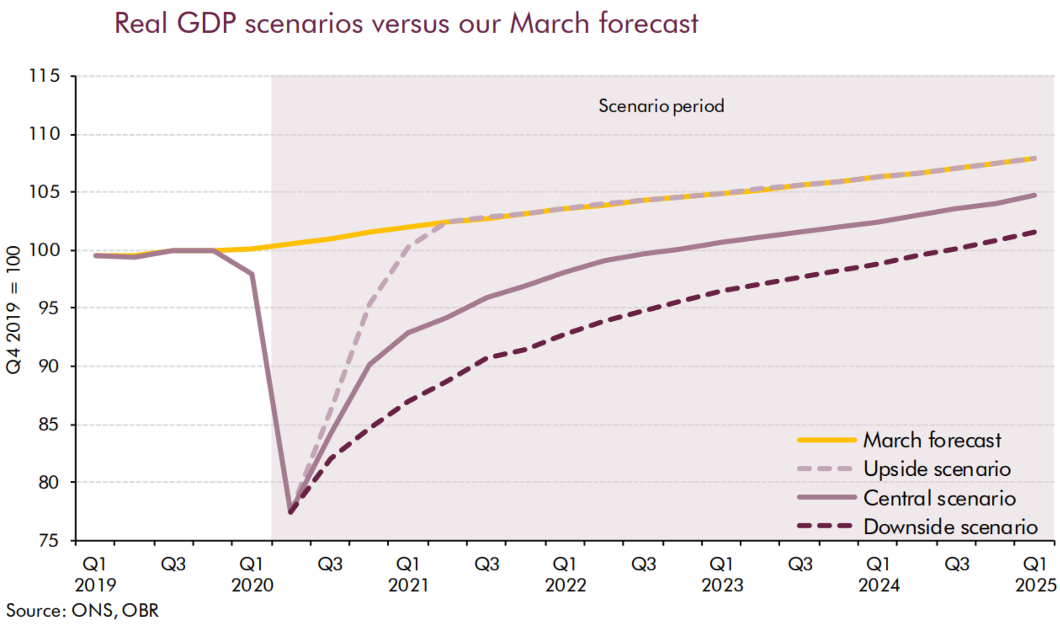
2.1.8 What does this mean though? The changes need to be compared to the expected economic growth and the impact on government income, that ultimately funds the public sector spending – the UK Budget.

2.1.9 The Office for Budget Responsibility published their latest Financial Sustainability Report that sets out to predict the long term recovery of the economy and compare that to the forecasts that had been made in March 2020, when the UK Budget was set for 2020/21. The deviation from the March position is striking and their use of scenarios is an indication of the level of uncertainty the economy faces.

2.1.10 They said in July "The coronavirus outbreak and the health measures put in place to address it have resulted in a very sharp economic contraction, leaving the UK on track to record its largest annual fall in GDP in 300 years." The recovery is far from certain and their scenarios reflect a 'upside, downside and central' position.

- upside scenario, activity rebounds relatively quickly, recovering its pre-virus peak by the first quarter of 2021, and there is no enduring economic scarring.
- central scenario, output recovers more slowly, regaining its pre-virus peak by the end of 2022. Cumulative business investment is 6 per cent lower than in the March forecast over five years, while unemployment and business failures remain elevated. Real GDP is 3 per cent lower in the first quarter of 2025 than in their March forecast.
- downside scenario, output recovers even more slowly, returning to its pre-virus peak only in the third quarter of 2024. This results in a more significant loss of business investment, more firm failures and persistently high unemployment as the economy undergoes significant restructuring. Real GDP is 6 per cent lower in the first quarter of 2025 than in their March forecast.

Chart 4:

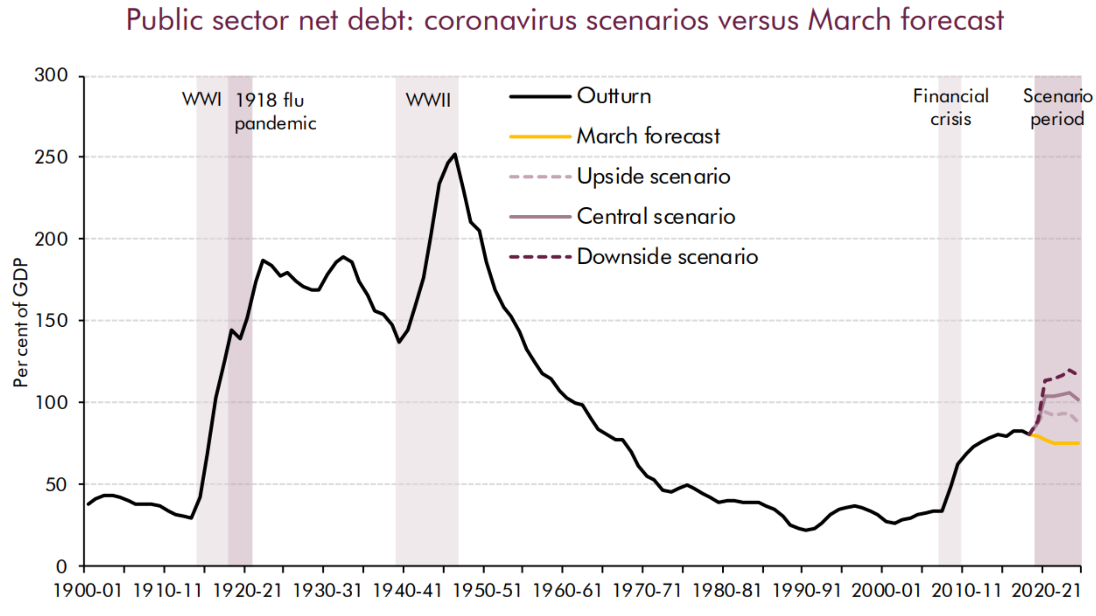


2.1.11 The cost of a 3% lower level of GDP, at today's prices is £70+billion. For the 'Central' scenario to have such a large impact on the March forecasts must have consequences for the UK Budget and spending for the years that follow. This, before the increasing level of debt is considered.

2.1.12 The OBR refer to the impact on borrowing as "unprecedented peacetime rise in borrowing this year to between 13 and 21 percent of GDP, lifting debt above 100% of GDP in all but the upside scenario." This was forecast ahead of funding announced by the Chancellor on 8 July 2020, and anything thereafter.

2.1.13 Public Sector Net Debt above 100% of GDP will be the first time since the early 1960s. With further measures having been announced during the months since July, including the Job Support Scheme, replacing the Job Retention Scheme (furlough), the picture emerging is increasingly concerning and bleak for the public sector in the UK.

Chart 5:



Source: Bank of England, ONS, OBR

2.1.14 Despite low borrowing rates, the debt will have to be serviced by the UK budget and ultimately repaid. Therefore, the Council needs to be prepared to respond and pre-empt the likely scenarios that will arise for the funding of public services going forward, and over the medium to long term. The consequences of the pandemic and the uncertain future will be evident for years to come.

2.1.15 To emphasise the point, the OBR concluded in July that "The Government's ability to push the deficit ever higher rests in part on the credibility of the institutional framework that gives investors confidence that the value of the government bonds they purchase will not be deliberately eroded in the future. Its willingness to push the deficit higher points to an increased reliance on the use of fiscal policy in 'bad' times, which implies that debt will also need to fall more quickly in 'good' times to build up fiscal space."

2.1.16 In conclusion, the upside scenario appears unlikely and to underline this Moody's credit rating assessment announced on 16 October 2020 downgrades the UK a further notch to Aa3, citing growth will be 'meaningfully weaker' than anticipated.

2.1.17 The downside scenario shows considerable challenge over a prolonged period and there remains optimism that the UK economy has the fundamentals for recovery. The council considers the central scenario most likely and will proceed to use this as the basis for underpinning the strategy.

2.2 Other Significant External Risks

2.2.1 *Exit from the European Union (EU)* - The UK left the EU on 31 January 2020 and entered an 11 month period of transition during which the UK effectively remained within the EU's customs union and single market and continued to be subject to EU rules. This is due to end on the 31 December 2020. The nature of any agreement with the EU and subsequent arrangements put in place, as well as trade deals with non-EU countries, will impact on a range of areas such as trade, skills, and EU funding. The nature of economic activity in Aberdeen is likely to be sensitive to potential changes to trading arrangements and restrictions on the movement of people and the council is continuously assessing and seeking to mitigate a range of risks associated with the exit from the European Union, including potential budgetary impacts.

2.2.2 *Pressures on other public sector organisations* - All public sector organisations are under increasing financial pressure as changes in funding and increases in demand are not supported by funding. Whilst Aberdeen City has a strong record in working with partners to improve outcomes, prevent harm and increase public sector efficiency, the additional pressure on all public sector agencies may raise the risk that preventative activity, which is necessarily multi-agency in nature, may be more difficult for partners to sustain when facing increasing pressure to support responsive services. Behaviours which are not based on a whole system approach and are narrowly defined by attribution of cost benefits to individual organisations should be avoided.

2.2.3 *Emergency Response* - Covid-19 is, of course, the primary focus of emergency response in 2020 (as detailed in Section 1), but other emergency events and situations are likely to occur. These may include, for example, incidents related to climate change; terrorist attacks; infrastructure issues with national implications (eg. Grenfell Tower); further pandemics, etc. The council's own plans to respond and recover quickly and effectively from longer term emergency incidents are being further strengthened and may require further financial investment.

2.2.4 *Corporate Liabilities* – Local authorities are exposed to several liabilities which have significant financial pressures if they occur. For example, the Scottish Child Abuse Enquiry led to financial claims which fall liable to councils; fines can be imposed on councils by the Health & Safety Executive, the Information Commissioner and other regulators.

2.3 The Funding Outlook – UK

2.3.1 On 23 September 2020, the UK Treasury announced that the Autumn Budget had been cancelled. We should expect however a spending review and confirmation of the likely shape of government funding.

2.3.2 The budget in March 2020 amounted to £928 billion. Funding for the budget relies on employment and indirect taxes, for example VAT, therefore the importance of employment levels and individuals having disposable income available to them cannot be understated. The consequence of the economic position described in the previous section makes the impact on public sector spending all too stark.

2.3.3 Employment levels falling, unemployment levels increasing has the double edged impact of reducing income to the Treasury and Revenues Scotland while the cost of social protection increases.

2.3.4 Borrowing plugs the gap for the short-term, but as discussed above the situation is unsustainable and the repayment of the net debt must be achieved to provide market stability and maintain strong credit credentials on the global stage.

2.3.5 The budget for 2020/21 did not take account of the emerging pandemic and therefore the impact of fiscal support announced by the Chancellor has been on top of those spending plans. The OBR in their August Commentary, published 25 September 2020, stated that "Less than halfway through the 2020-21 fiscal year, the budget deficit has already topped full-year borrowing in 2009-10 (at the peak of the financial crisis)."

2.3.6 "Despite that, year-to-date borrowing is lower than assumed in the central scenario from our **Fiscal sustainability report**, as both GDP and tax receipts have fared less badly than assumed. With the virus taking hold again and the Chancellor announcing new support measures, prospects for the rest of the year remain highly uncertain."

2.3.7 In figures, this means the UK Budget deficit for 2020/21 had reached £174 billion by the end of August 2020, this compares with £27 billion at the same point last year (2019/20).

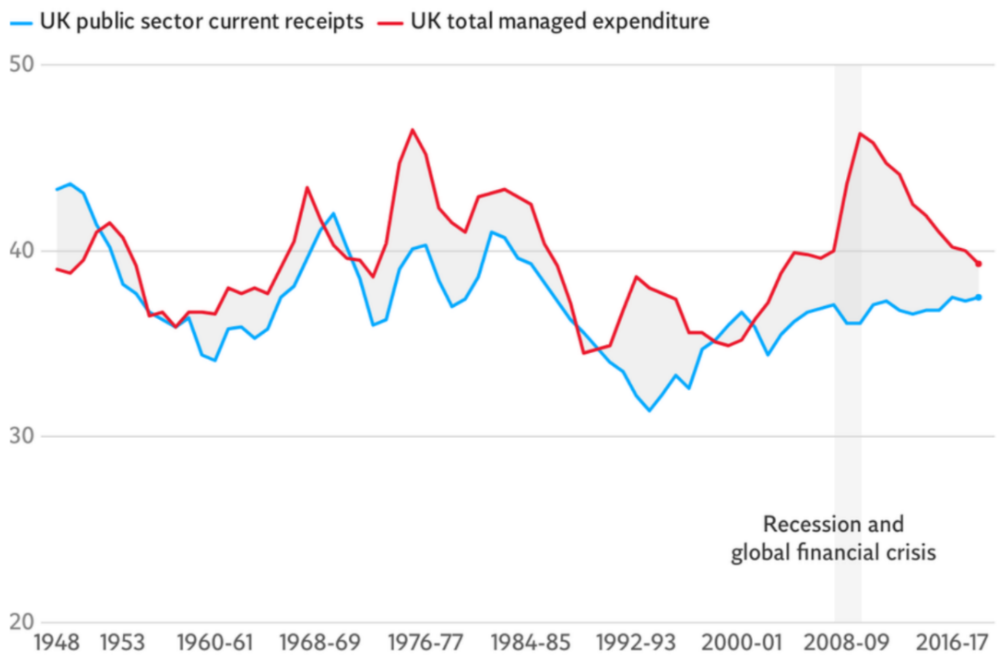
2.3.8 Government Spending was driving much of that increase, with unprecedented values and volumes of support payments being paid out, it amounted to 33% higher spending levels in 2020/21 than in 2019/20.

2.3.9 According to the National Audit Office (NAO) the Government had instigated 190 measures in response to the pandemic, including emergency job support, additional NHS funding and financial support for businesses. The cost in the first six months has been estimated at £210 billion, additional expenditure of approximately one quarter of the UK Budget.

2.3.10 Public spending at this level is neither affordable nor sustainable for the country and therefore the funding position of the public sector in the future must be at high risk of contraction and/or resizing to adjust to the new normal. With the Scottish Budget continuing to be heavily reliant on the Barnett formula that distributes the Block Grant to Scotland – approximately two thirds comes to Scotland from the UK Treasury – any changes in UK Government funding policy and the size of the UK Tax Revenues will have a material impact on Scottish public services.

2.3.11 An example of the consequences of massive financial intervention in an economic crisis can be seen from the chart below, prepared by the OBR, showing the steep contraction of public spending following the 2008/09 financial crisis.

Chart 6:

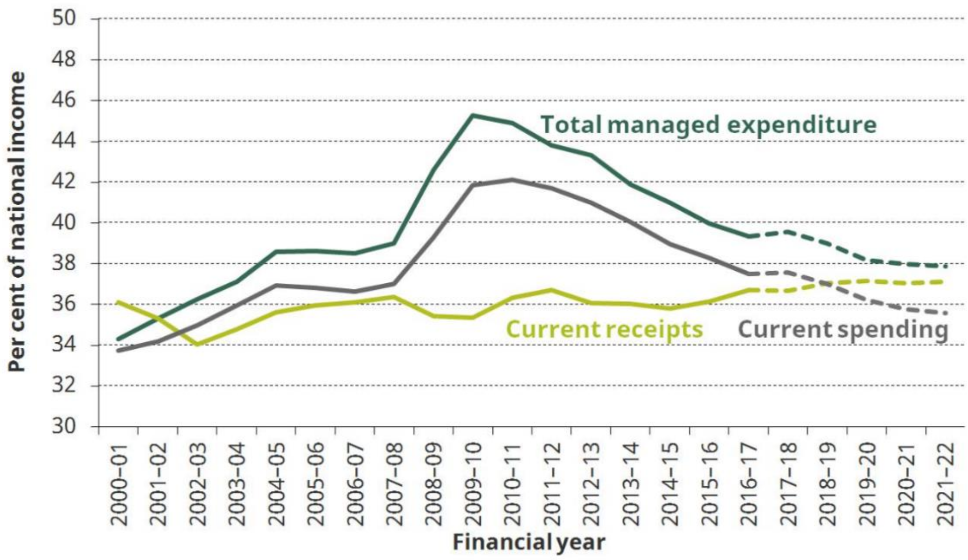


Source: Office for Budget Responsibility

2.3.12 The Coronavirus pandemic has had to have a very different response from government, from the financial crisis with the scale of budget deficit and public sector spending being even greater than in 2008/09. A correction will have to be expected.

2.3.13 The correction following the financial shock in 2008/09 resulted in a contraction in UK public spending and increased taxes, this had impact at a UK level from the following year, 2009/10 and is demonstrated by the Institute of Fiscal Studies analysis from 2017[3] in Chart 7.

Chart 7: Tax and spend as a share of national income since 2000



Source: IFS

2.3.14 The consequential effect on Scotland's finances must be of serious and urgent concern. The level of uncertainty heightened by the cancellation of the UK's Autumn Budget 2020.

2.3.15 According to the Scottish Budget 2020/21[4] the impact of UK public sector contraction between 2010/11 and 2020/21 Scotland's discretionary resource budget has fallen 2.8% in real terms, almost £1bn.

2.3.16 Covid-19 represents a physical shock to the system, which is creating an economic shock. It is a reasonable assumption to make that the economic shock will be followed by a period of public spending contraction.

2.3.17 Three things are uncertain at this point – how much of a contraction will we see, when will it take affect from and within the devolved settlement to Scottish Government how will this be allocated across the different parts of the public sector in Scotland

1. How much of a contraction – According to the Scottish Government's budget 2020/21 the ten year impact of the last economic shock was £1bn in real terms,

[3] IFS, Two Parliaments of Pain, May 2017

[4] Scottish Budget 2020/21, Scottish Government

with financial intervention much greater it is not unreasonable to forecast further real terms reductions of similar scale based on a “central” scenario.

2. When will it start is difficult as the end of the event itself is uncertain, as described earlier. The evidence from the aftermath of 2008/09 financial crisis is that in 2009/10 public sector spending was at its peak. Contraction for Scottish local government started a year later, with the peak funding settlement delivered in 2010/11. The council should expect that funding contraction will happen no later than 2022/23.

3. How will it be allocated within the devolved settlement – Section 2.3 explores this in more detail.

2.4 The Funding Outlook – Scotland, Local Government and Aberdeen City Council

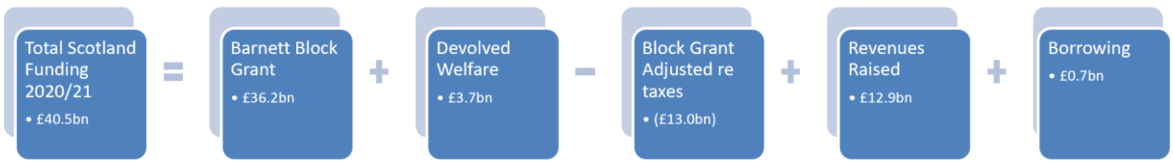
2.4.1 The primary source of funding for the delivery of Council Services is the Scottish Government through the allocation of general revenue and capital grants, and the distribution of national non-domestic rates income. In Scotland Local Government funding accounts for approximately a quarter of the total budget, in 2020/21 approximately £10.5 billion.

2.4.2 With approximately three quarters of the Council’s net revenue funding being received in this way it is simple to see why UK and Scottish Government policies and economic forecasts impact on the level of Council funding.

2.4.3 The Scotland Block Grant from UK Treasury is based on the Barnett Formula, adjusted to take account of taxation and fiscal powers now devolved to the Scottish Government. This adjustment is captured under the Fiscal Framework between the UK and Scottish Governments.

2.4.4 For financial year 2020/21 Scotland’s Budget, excluding Annually Managed Expenditure (AME)[5], amounted to £40.5 billion, when set in March 2020. This is the element of the budget the Scottish Parliament can make decisions about.

Diagram 1: Original Scotland Budget 2020/21, excluding AME



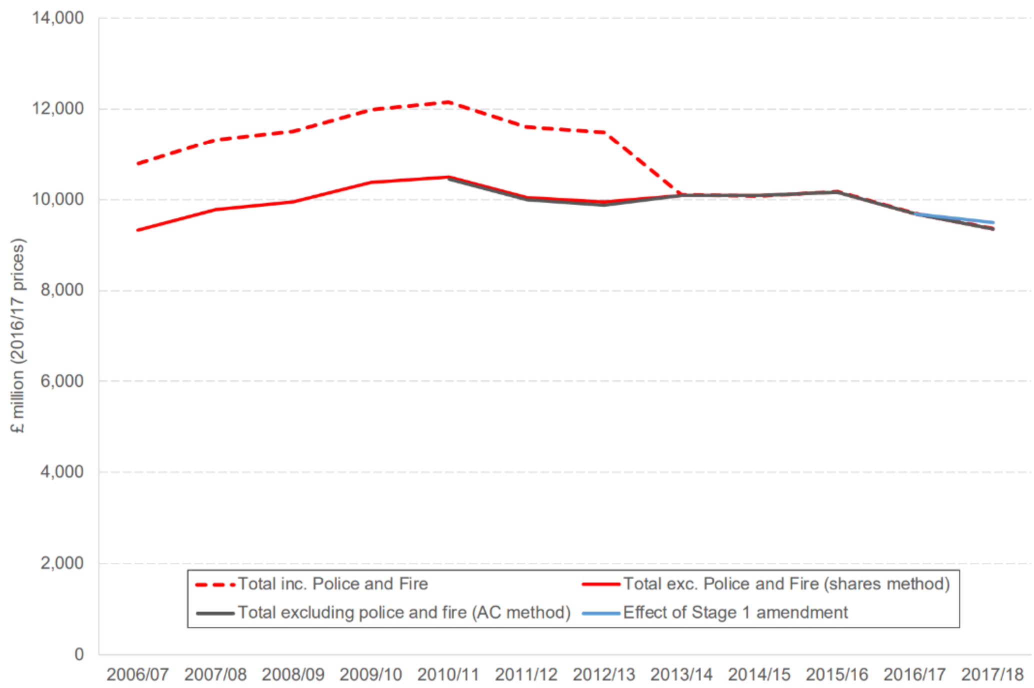
[5] AME is specific grant funding paid by UK Government to cover costs such as NHS and teacher pensions and student loans. In 2020/21 this amounts to £8.7 billion.

2.4.5 The 2020/21 budget reflects the changing picture of devolved powers, including devolved social security payments and farm payments, previously funded by the EU.

2.4.6 Notable is the adjustment to the block grant for the devolved tax raising powers that now sit with the Scottish Parliament. The size of the Scottish Budget is therefore directly affected by economic performance, through taxation revenues, in Scotland compared to the rest of the UK. In 2020/21 there is a shortfall in the value of the adjustment, i.e. more has been taken out of the budget by the Fiscal Framework adjustment calculation than the Scottish Government can put back in. Diverging economic performance could place added pressure on the Scottish Budget in future years.

2.4.7 The picture of local government funding, following the peak year of 2010/11 was captured in a report[6] by Fraser of Allander in 2017, which unravelled the complexity of measuring the impact on local government services as known today. That complexity refers to the removal of Police and Fire Services in 2013/14. They calculated that between 2010/11 and 2017/18, based on the Accounts Commission methodology the real terms decline for local government was 9.3%, around £1bn lower than in 2010/11.

Chart 8: Total revenue funding to local government (including Non-Domestic Rates and specific grants), 2006/07 – 2017/18

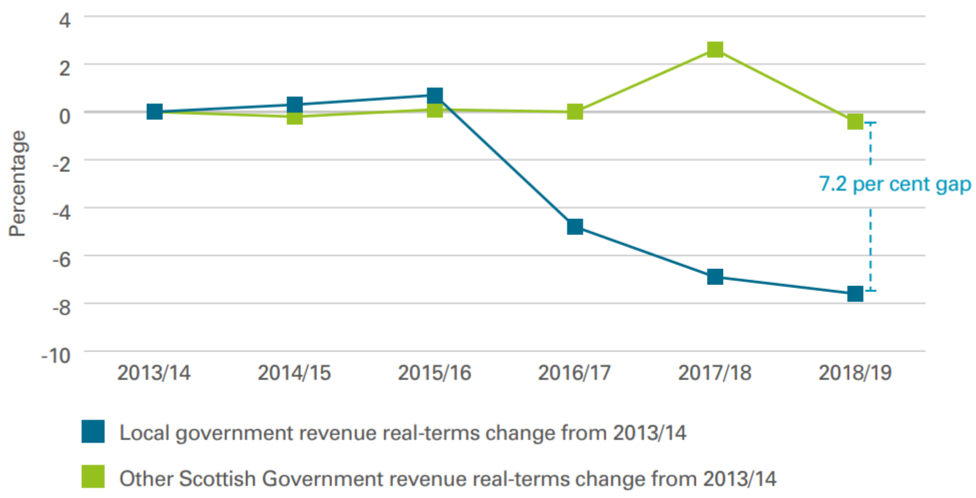


Source: Local Government Finance Circulars, FAI analysis

[6] Fiscal issues facing local government in Scotland, Fraser of Allander, March 2017

2.4.8 Last year the Accounts Commission, in their Local Government in Scotland Financial Overview 2018/19[7] report, described the difference in funding between the local government sector and the other areas of the Scottish public sector. Their report described the real terms change in funding since 2013/14 to 2018/19, local government seeing a 7.6% reduction in real terms fall in funding, while elsewhere that reduction was limited to 0.4%.

Chart 9:



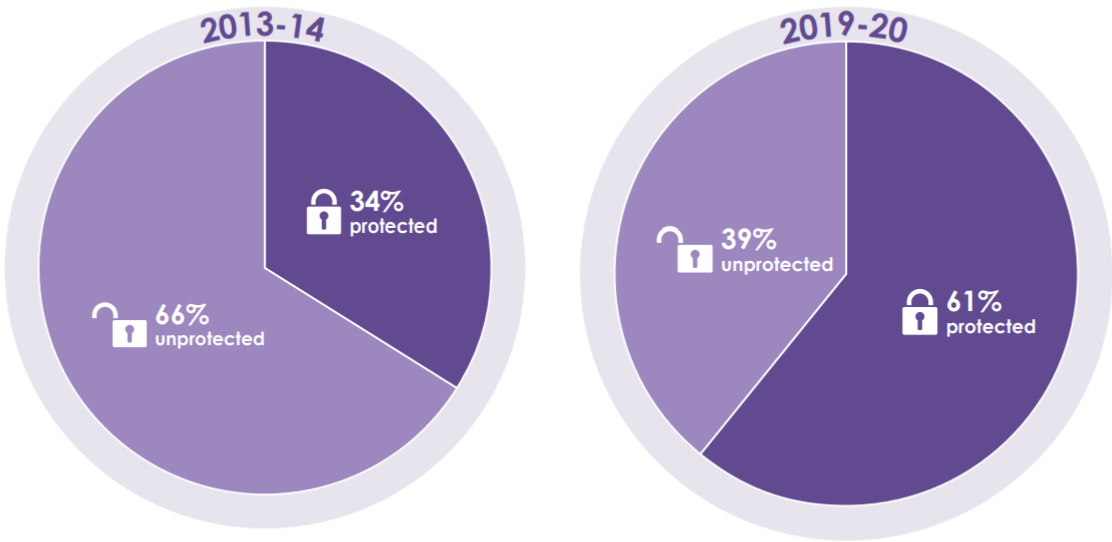
Source: Scottish Government budget documents and financial circulars

2.4.9 While it is acknowledged that in 2020/21 funding in total has reversed this to a certain extent, it is clear from the data that over the period 2013/14 to 2020/21 there has been reduction in funding in real terms of 3.3% to local government.

2.4.10 The quantum of the local government settlement is not the only issue arising, as the funding context for Scotland is one that is driven strongly by national policy and commitments. This is seen in the extent to which the local government budget is truly determined locally. According to the Convention of Scottish Local Authorities (COSLA), in their “Invest in Essential Services” information, “Ring-fencing, national policy initiatives and protections in education, health and social care continue to grow creating increasing protection.”

[7] Accounts Commission, published December 2019.

Diagram 2:



Source: COSLA, Invest in Essential Services

2.4.11 The Accounts Commission said in December 2019[8] "An increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities." This point was reiterated in June 2020[9], when they referred to "Councils have less flexibility in how they use funding. Funding dedicated to national policy initiatives increased from £1 billion in 2019/20 to £1.5 billion in 2020/21, equating to 14.1 per cent of council funding from the Scottish Government."

2.4.12 **Conclusion: Scottish Government Funding**

I. The allocation of any reduction by Scottish Government across the Scottish public sector portfolios is unknown so for scenario planning the following assumptions have been made.

Table 3:

Upside Scenario	**Central Scenario**	**Downside Scenario**
A continuation of the 3.3% reduction experienced over the last 8 years.	A return to similar reductions seen in the earlier years following the financial crisis, summarised as 9.3% over the 8 years from 2010/11.	An increased impact beyond that experienced to date, 18%.

[8] Accounts Commission, Local Government in Scotland Financial Overview 2018/19, December 2019

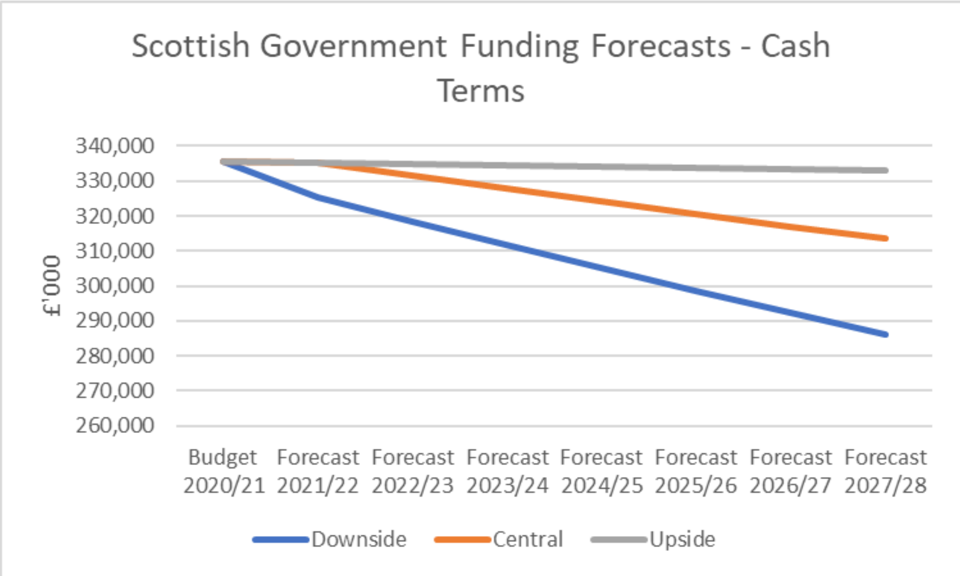
[9] Accounts Commission, Local Government in Scotland Overview 2020, June 2020

II. The level of "protection" that Scottish Government applies to its political priorities delivered by local government is also quantified.

Table 4:

Upside Scenario	Central Scenario	Downside Scenario
Mainstream national priorities and provide flexibility shifting resource protection to less than 10%.	Current level of protection continues, 14.1% of resources directed nationally.	Greater control directed nationally to deliver national priorities, raising protection to over 20% of local government resources.

Scottish Government Grant Scenarios



III. From an approved budget level (pre-coronavirus adjustments) of government funding of £336m, the upside position looks at a scenario of that reducing by just £3m to £333m over the next seven years. On the downside, and with greater likelihood the value of core funding could be as low as £286m, a funding range of £47m.

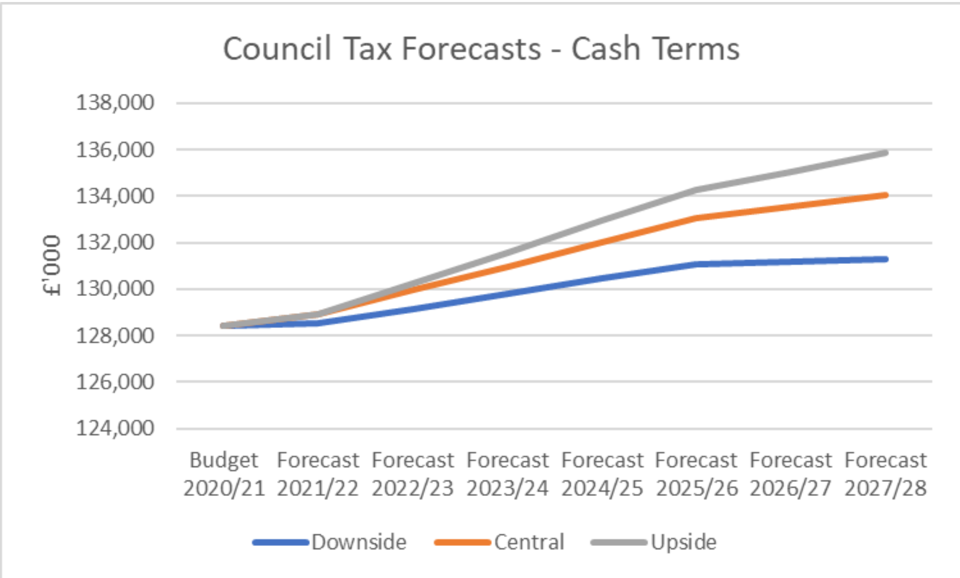
2.4.13 Limits placed on funding local government receives means that local authorities must turn to the fiscal levers they have, to exercise control and to influence the level of income they have, to pay for services. Fundamentally this means looking carefully at the power to raise funds locally from Council Tax, and to review / apply fees and charges for services that are delivered.

2.4.14 Exercising discretion over these fiscal levers is, again, not straightforward. The local government financial settlement puts restrictions on the most significant fiscal lever local authorities have, setting the Council Tax. The cap on Council Tax increases was introduced in 2017/18, following a nine-year Council Tax freeze, from 2008/09. The initial cap condition was absolute in cash terms at 3% and in 2019/20 a real terms limit of 3% was introduced, the cash limit therefore being higher. Despite this it offers local authorities limited opportunity to raise the funds they need to meet rising costs.

2.4.15 Limiting the value and / or missing the opportunity to increase Council Tax undermines the future value of this funding stream for the council.

2.4.16 **Conclusion: Council Tax**

Chart 11: Council Tax Scenarios

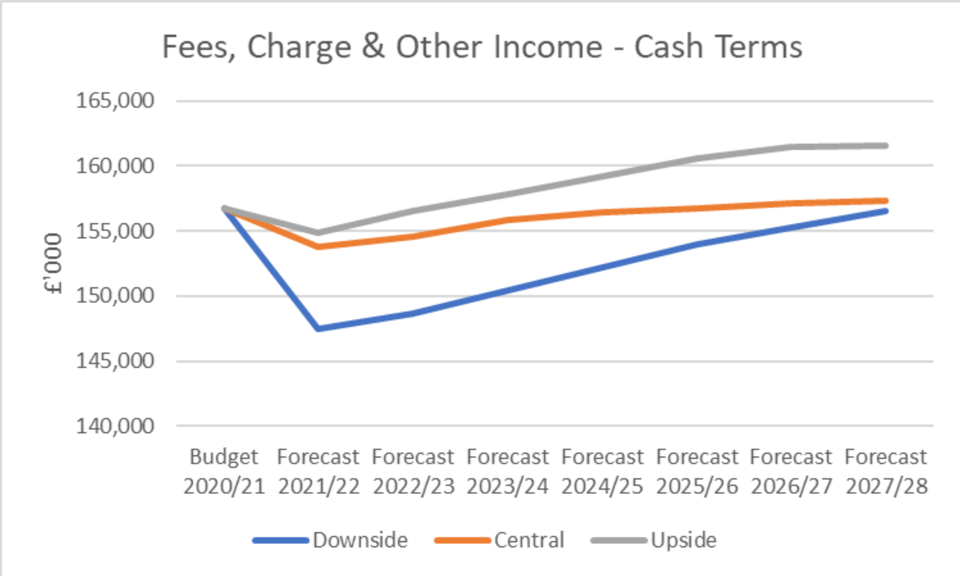


2.4.17 Fees and charges are an important source of funding for local authority services and some provide a positive inflow of cash to support the overall revenue budget, a common example being car parking income. Other external income raised through fees and charges will often recover a proportion of the cost of delivering a specific service, lowering the overall cost to the General Fund revenue budget. Securing an income from a strong customer base, with repeat use can help to avoid public subsidy for discretionary services.

2.4.18 Statutory and regulatory limits do hinder local government and in areas of planning and licensing, for example, the price paid by the customer is not set by the council and does not cover the cost of services delivered.

2.4.19 **Conclusion: Fees and Charges**

Chart 12: Fees and Charges Scenarios



2.4.20 Beyond these fiscal powers local authorities have very limited access to raise monies. Recent actions to open opportunities to local authorities has centred on infrastructure based levies, including road pricing, workplace parking and an infrastructure levy included in the Planning (Scotland) Act 2019. In addition, local authorities have sought to have the powers to collect a transient visitor levy.

2.4.21 While there is a mixed picture of legislation already in place to support these levies, it is clear that further regulation and statutory instruments are required to provide local authorities the powers to implement them and as was seen at the start of the coronavirus pandemic the Scottish Government announced (March 2020) a delay in the transient visitor levy legislation. It is going to be some time before local authorities can draw any benefit from such fiscal freedom.

2.4.22 **Conclusion: Discretionary Powers**

I. Table 5: Analysis of Emerging Discretionary Powers

Discretionary Powers	**Primary legislation in place (yes/no)**	**Required statutory regulation in place (yes/no)**	**Anticipated year we can expect to be able to use power?**
Transient Visitor Levy	No. Consultation on Levy completed December 2019.	No.	Unclear. Scottish Government announced in March 2020 that work to introduce a TVL had been halted by COVID-

			19. It is not clear if this is a temporary halt or a permanent halt.
Workplace Parking Levy	Yes. Transport (Scotland) Act 2019	No. Part 7 of the Transport (Scotland) Act 2019 has not yet been brought into force.	Unclear. Unlikely to be until after the COVID-19 situation is resolved - meaning 2022/23 financial year at earliest.
Infrastructure Levy	Yes. Planning (Scotland) Act 2019	No. The power to make regulations about an infrastructure levy is not yet in force and, as such, no regulations have been made.	Unclear. Unlikely to be progressed until after COVID-19 situation is resolved meaning 2022/23 financial year. Planning (Scotland) Act 2019 provides that the power to introduce a levy will lapse by 25 July 2026.

II. As the underlying statutory framework is not yet in place the scenario plans have not been affected by additional income arising from exercising these powers.

III. The council should continue to identify and evaluate emerging discretionary powers on a regular basis to determine their applicability to Aberdeen City.

3. THE CONSOLIDATED MEDIUM TERM OUTLOOK FOR THE GENERAL FUND

3.1 Medium Term Financial Strategy – Quantification of the Funding Gap

3.1.1 Overall, the medium term outlook is that increasing demand and pay and price inflation will drive costs up at a faster rate than the council can expect to raise income. This gap must be addressed for each individual year, but also sustainably for the future.

3.1.2 Details of the key assumptions are contained in the tables below. The calculations that flow from these assumptions reveal a particular sensitivity to Scottish Government funding levels and general pay and price inflation assumptions, while key components of the demand underpin rising costs, such as population demand changes.

Table 6: Funding and Income (percentages are shown in cash terms)

Source	Description	Upside Scenario	Central Scenario	Downside Scenario
Scottish Government Revenue Grant	Combined grant income from General Revenue Grant and Non-Domestic Rates.	Year 1-7 0%	Year 1 0% Year 2-7 -1%	Year 1 -3% Year 2-7 -2%
Council Tax	Increasing the rate is a council decision made at budget setting time, the Band D rate has therefore not been increased in any scenario, i.e. it remains based on 2020/21 value. The budget decision will provide a solution to address the scenarios.			
Council Tax	Tax base increase from additional chargeable properties.	Year 1-7 total 6,969 properties	Year 1-7 total 5,283 properties	Year 1-7 total 2,700 properties
Fees, Charges and Other Income	External income raised from customers. Approval for rate increases is a council decision, therefore rates charged in 2020/21 have continued to be applied to each scenario. The budget decision will provide a solution to address the scenarios.			
Fees, Charges and Other Income	External income changes due to Covid-19 impact	Year 1 £1.9m loss & return to current by year 3	Year 1 £2.7m loss & return to current by year 5	Year 1 £9.2m loss & return to current not achieved by year 7

Table 7: Expenditure (percentages are shown in cash terms)

Source	**Description**	**Upside Scenario**	**Central Scenario**	**Downside Scenario**
Inflation	Pay	Year 1-7 1% annually	Year 1-3 3%; Year 4-7 2%	Year 1-3 3%; Year 4-7 2.5%

			Year 4-7 2% (Teachers)	Year 4-7 3% (Teachers)
Inflation	Price – including contracts, grants and ALEOs	Between 0.5% and 1.25%	Between 1.25% and 2.5%	Between 1.25% and 3%
Inflation	Utilities, including Gas, Electric, Heating Oil, Water	Gas -1% Electricity 2.5%	Gas 0% Electricity 5.7%	Gas 5% Electricity 9%
Population Demand	Children, schools impact	Year 1-7 £7.1m increase		
Covid-19 Demand	Council Tax Bad Debt	Year 1 £1.7m increase & return to current by year 3	Year 1 £1.7m increase & return to current by year 4	Year 1 £2.6m increase & return to current by year 6
Covid-19 Demand	Increased Contingencies	Year 1 £1m Year 2 £0.5m Year 3-7 £0	Year 1 £1m Year 2 £0.5m Year 3-7 £0	Year 1 £1m Year 2 £0.5m Year 3-7 £0
Capital Investment Demand	Capital Financing	Year 1 10% Year 2 -3% Year 3-7 -4%	Year 1 10% Year 2 -1% Year 3-7 -2%	Year 1 10% Year 2 0% Year 3-7 2%

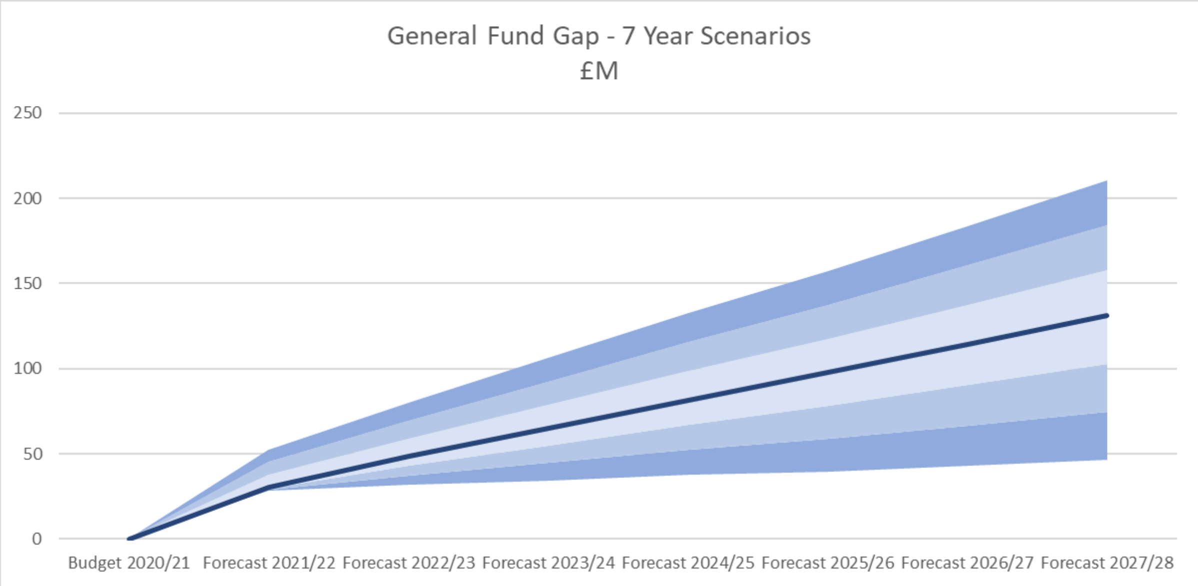
3.1.3 The impact of income and expenditure assumptions is shown in the table below

Table 8: Budget Gap Scenarios

General Fund Budget Gap	**Budget 2020/21 £m**	**Forecast 2021/22 £m**	**Forecast 2022/23 £m**	**Forecast 2023/24 £m**	**Forecast 2024/25 £m**	**Forecast 2025/26 £m**	**Forecast 2026/27 £m**	**Forecast 2027/28 £m**
Upside Scenario	0	28	32	34	38	40	43	47
Central Scenario	0	30	49	65	82	98	114	131
Downside Scenario	0	53	80	106	132	157	184	211

3.1.4 More clearly shown in graphical form, below, it shows the range of scenarios that may happen over the course of the years ahead.

Chart 11: Budget Gap Scenarios



3.1.5 The scenario plans reveal a range for 2021/22 of between £28m and £53m, with a central scenario that is towards the upside set of assumptions, this is because of a close alignment in these scenarios of income levels, and of the lack of opportunity for extra income to be generated by the council in the current climate.

4. CAPITAL FUNDING AND INVESTMENT

4.1 The Funding Outlook – Scotland, Local Government and Aberdeen City Council

4.1.1 Drawing on the funding outlook for the UK, described in Section 2, the overall expectation for capital funding being made available has the added dimension that capital investment can stimulate the economy and be a lever to support businesses, supply chain and economic growth in times of crisis.

4.1.2 The insight into what may happen is revealed when the UK Governments 2020 Comprehensive Spending Review was launched in July 2020, the intention of Government is to set out the capital budgets for the four years to 2024/25.

4.1.3 In launching the spending review, due to the unprecedented uncertainty no set spending envelope had been fixed for the Spending Review although real-terms growth for capital will apply across the four year period. Given the Covid-19 pressures known at that time, it does not necessarily mean all departmental budgets will rise in real terms.

4.1.4 What is unclear is the extent to which this then affects the Scottish block grant.

4.1.5 The Scottish Government published its Draft Infrastructure Investment Plan for Scotland 2021/22 to 2025/26[10] on 24 September 2020 and are in the process of consulting on it. Their intention is that the plan focusses on adopting and building on the recommendations of the Infrastructure Commission for Scotland's Phase 1 report. The recently published Programme for Government also commits the government to publishing the results of its capital spending review by the end of this year. Both of these plans will have a significant bearing on the council's capital investment plans.

4.1.6 Clear commentary from both UK and Scottish Governments demonstrate both funding being available and investment required within the "Green Economy". The Scottish Governments Draft Infrastructure Investment plan quotes "…demonstrates the vital role infrastructure has to play in enabling inclusive, net zero and sustainable growth". The Council must seek to harness this over the medium term and is well placed to capitalise on its position within the energy market.

4.1.7 Clear alignment within the Local Development Plan (LDP) and the future investment within the city (both by the public and private sector) are critical to providing land availability to allow future investment to take place.

4.1.8 The LDP clearly has ear-marked land for the Energy Transition zone and outline business cases are already in development to bring this aspect of the planning regime to life.

[10] Draft Infrastructure Plan 21/22 - 25/26, Scottish Government, September 2020

4.1.9 This is coupled with the already approved Strategic Investment Plan[11] approved by the Council and begins to articulate the future investment required to ensure the city is at the forefront of future energy sources as well as moving towards a net zero carbon footprint.

4.1.10 Investment in electric and hydrogen vehicles, sustainable energy sources for heating as well as Low Emission Zones will all be key to delivering a successful city of the future. All these investment strands are being brought forward at a pace to help deliver against this climate change backdrop.

4.1.11 However, a city must be able to offer a much more diverse offering to attract the investment to make it a city of choice in terms of where to live and work. While pre-Covid-19urbanisation was seen as the future in a post Covid-19 world this becomes blurred as human behaviour may well have changed forever.

4.1.12 As individuals and businesses seek to find a new "norm" the pressure on cities to redefine themselves will become ever more important. As people potentially work from home, children are educated out with a traditional school setting, on-line shopping becomes even more prevalent and other health issues begin to manifest themselves traditional capital investment by a local authority needs to be paused and re-examined.

4.1.13 Where people live and the type of housing they live in will no doubt change in the future. For example, people working from home and children being educated in a blended way means the Council will have to adapt.

4.1.14 The current house building programme approved by the Council in February 2020, presciently, set a new "Gold Standard" which would ensure space in a residential setting would provide for:

- Space to work from home;
- Energy Efficiency and tackling fuel poverty;
- Dedicated space for children to learn at home;
- Dedicated "Green Space"; and
- Encouraging fit and healthy lifestyle (cycling and walking).

4.1.15 In line with this, the vision for the city as agreed at the May 2020 Urgent Business Committee is: "We want Aberdeen to become a climate positive city at the same time, helping to lead the world on the rapid shift to a net zero future by leveraging its unique assets and capabilities to support the global energy transition".

4.1.16 In support of the vision, the Net Zero Vision prospectus recommends five co-dependent strategic objectives that will support the economic imperative to transition

[11] Net Zero Vision and Infrastructure Plan, UBC May 2020

to a different energy future beyond oil and gas anchoring talent and the energy supply chain; innovation and technology transfer; a new energy destination of choice; and leading and advocating for the city and energy sector:

i. Leading the Global Transition - Our city is a world-class destination for inward investment in alternative energy research, innovation, and commercialisation, underpinned by our credentials and track record;

ii. Accelerating Transition Demand - Our city and its institutions are an anchor of demand and aligned local investment for alternative energy technologies, infrastructure and services, particularly those relating to hydrogen, offshore wind, carbon capture, utilisation and storage, and decommissioning;

iii. Resilient, Productive and Dynamic Place - Our city is recognised the world over as the resilient, productive and dynamic place at the heart of a world-class energy transition cluster;

iv. Climate Positive Exemplar - We play our full part – as a climate positive advocate and exemplar – in meeting the headline global goal of the Paris Agreement on Climate Change by limiting average global warming to no more than 1.5oC above pre-industrial levels;

v. Putting People First - Everyone contributes to and shares in the proceeds of an equitable, sustainable and prosperous transition and future.

4.1.17 The plan aligns to the overall objective of Aberdeen meeting the net carbon zero target by 2045 and, ultimately, to achieve climate positive status, and the goals of:

- Clean energy supply for the city, UK and internationally
- Aberdeen's infrastructure is adaptable to changes in climate
- Sustainable mobility
- Building Energy Efficiency
- Sustainable Waste Management

4.1.18 Building on all of this, capital investment decisions on the future infrastructure requirements of the city will have to align to these principles.

4.1.19 The current Capital Programme for the General Fund was approved with investment of £424m in city projects over the five years to 2024/25, details of the programme are shown in Appendix 2.

4.1.20 Shaping the future, taking account of the ambition described above will be managed within the framework of the Prudential Code for Capital Finance in Local Authorities, which requires this to be prudent, affordable and sustainable.

5. RESPONSE TO THE CONSOLIDATED MEDIUM TERM OUTLOOK FOR THE GENERAL FUND

5.1 2020/21 - The Council's allocation of resources and budget is set annually within the context of a commissioning cycle which aligns available resources to a broad range of commitments which are described through:-

- Statutory duties;
- Implementation of the Council's Policy Statement;
- Commissioning intentions which support the delivery of the Local Outcome Improvement Plan and other strategic outcomes; and
- Service standards which specify the level of service to be delivered.

5.2 Adjusting the delivery of these commitments is a key lever for controlling spend and, therefore, the council conducted a review of each of these commitments at the Urgent Business Committee in June 2020, agreeing to slow, accelerate or otherwise change commitments and service levels appropriate to the context of the impact of Covid-19 on the council and the city. This was accompanied by a comprehensive review of cost savings and income sources, including the flexible use of specific grant funding, additional Scottish Government grant funding, earmarked reserves, the Common Good and capital receipts. As described at Section 1 above other levers are now available and will be explored to mitigate the continuing financial pressures in 2020/21, including the change in accounting arrangements for service concession arrangements.

5.2 2021/22 and 2022/23 - Resource allocation for future years will be derived from the council's commissioning cycle. Specifically, the services which the Council delivers will be reviewed annually with ***analysis*** of the operating environment through:

- Horizon scanning
- Scenario planning
- Strategy review
- An analysis of statutory duties
- An analysis of current and projected demand
- Performance levels achieved
- An analysis of financial data
- An analysis of contracts
- An analysis of workforce data

This analysis informs ***planning*** of future service designs which, at a detailed level, set:-

- Services to be commissioned and delivered
- Services to be changed through recommissioning
- Services to be decommissioned
- Eligibility criteria for those services
- Customer Access/ Channels/ Standards
- Income levels
- Organisation structure and workforce
- Location / Assets
- Suppliers and contracts
- Digital / Data systems
- The cost of services
- Significant risks associated with delivery of the service

5.3 Future Transformation Priorities - The Council's Transformation Portfolio has, over the last 3 years, supported the implementation of the Target Operating Model (TOM) by developing the necessary organisational capabilities. This has fundamentally changed the organisation through, amongst other things, an aligned strategy and policy framework; the joint outcome based commissioning approach; a systematic approach to identifying and managing demand; a revised Scheme of Governance to facilitate the strategic use of resources through commissioning; a new organisational structure; multiple digital achievements including increasing efficiency through online customer service and increasing our digital capability; guiding principles and behaviours co-created with staff; a capability framework and workforce plan.

5.4 Specific council services have developed new operating models in line with the overall council TOM, including children's social work and education for which we have established a three-year direction of travel to both address emerging risks and focus on long term sustainability. This approach is ensuring that on-going budget reductions are managed within a context of promoting quality and effective delivery of the Council Delivery Plan. Themes for this direction of travel are:

- Redirecting resource into primary prevention and early intervention to transform how we manage demand
- Use of digital technology to reduce headcount and improve the quality of the curriculum
- Transforming the Senior Phase to improve quality and efficiency
- Partnership integration to improve wellbeing and attainment in the first 1000 days and beyond

5.5 In addition to the Council's own transformation programmes, we have established a Multi-agency Transformation Management Group and have worked collaboratively with partner agencies on transformational activity relating to digital services; use of assets; early intervention and prevention through the management of demand; and the design of specific services, with a particular focus on children' services.

5.6 Looking forward and within the context described by this medium term financial strategy, the Transformation Portfolio has been reviewed during 2020 and refocused on the capabilities and actions to support deeper and broader service redesign which will be required to ensure financial stability in future years. The priorities for the next phase of the Transformation Portfolio will build upon our systemic redesign of services to ensure we respond to and shape future demand. Specifically, this transformation activity will focus on:-

- Taking full advantage of the opportunities which are presented through the rapid acceleration of digital technology, the availability and management of data and how this can support both planning and transactional services for our customers. The council has, and will continue to, invest in new IT systems and technologies, to increase productivity and efficiency through end to end processes, customer journey and improvements in information and technology;
- The flexibility of our workforce and the ability to respond to different demands and a different environment. We will continue to invest in the culture, training and development that will deliver a diverse and inclusive workforce for the future;
- The use of our physical assets to support transformation of our services and deliver an increased return for the Council. The council holds significant physical resources such and through the implementation of an updated Asset Strategy we will continue to work to optimise the use of our assets. We will improve the use of data to ensure we fully understand the nature and value of our assets to support informed decision making; and
- Working closely with our partners, customers and communities to deliver inclusive, whole system redesign. Building on our work to identify and reduce negative demand, it is clear that much of the demand which local authorities experience can only be effectively reduced through early intervention and prevention activity delivered jointly with our partners including, where appropriate "co-production" of local services with communities. Our partnership work will be driven through both Community Planning Aberdeen and the north east Multi-Agency Transformation Management Group.

5.7 Linked Strategies - The Strategic Commissioning Committee agreed in November, 2019, a revised Strategy Framework[12] which reframed the formal strategies of the Council to ensure their full alignment to the Local Outcome Improvement Plan and their

[12] Strategy Framework, SCC, November 2019

consistency with each other. Through the adoption of the commissioning cycle, the council's strategies have a fundamental role in the strategic allocation of resources. This MTFS is a key plan which provides context and sets principles which must be reflected within the council's strategies. The council's agreed strategies are shown at Appendix 1.

6. RESERVES AND FINANCIAL RESILIENCE

6.1 Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Chief Officer - Finance is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

6.2 The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and demonstrates sound financial planning. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Council time to ride any short-term situations before returning to normal.

6.3 Therefore, reserves are mainly available to;

- ✓ Manage the impact of cuts over a longer period of time;
- ✓ Invest in schemes that allow services to be delivered cheaper;
- ✓ Take "one-off hits" for the council as a whole without the need to further reduce service budgets;
- ✓ Provide capacity to absorb any non-achievement of planned budget reductions in each year;
- ✓ To temporarily roll over unused portions of grants that can legally be used at a later date;
- ✓ To insure against major unexpected events (such as flooding);
- ✓ To guard against general risk (such as changes in contingent liabilities);
- ✓ To guard against emergent specific risks (such as Covid-19 or the Exit from the EU).

6.4 These risks are predicted to continue to increase.

Reserves Policy[13]

6.5 The council's policy on reserves is outlined within the MTFS principles as follows:

- The council will maintain its general reserve at a minimum of £12m to cover any major unforeseen expenditure. The council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the unearmarked General Fund Reserve.
- The council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed annually.

[13] Council Reserves Policy, March 2020, Report number 5.2, Appendix 5

- The council's general reserve is available to support budget setting over the period of the MTFS and usage should be linked to the achievement of financial sustainability over the medium term.

Review of Reserves

6.6 A review of reserves is undertaken twice a year and covers:

- The purpose for which the reserve is held,
- An assessment of the appropriate level of the reserve to meet potential future liabilities, in line with the Council's reserves policy and aligned to the risk management framework,
- Procedures for the reserve's management and control,
- A process and timescale for future reviews to ensure continuing relevance and adequacy.

6.7 The Audited Accounts for 2019/20 show the balance of General Fund usable reserves of £35m (including earmarked reserves of £23m).

6.8 In support of the Financial Resilience reporting to the Urgent Business Committee in June 2020, a full review of reserves has also been carried out. Decisions were taken to release a sum of £0.1m from earmarked reserves to support the 2020/21 revenue budget. There are no further changes required at this time. An explanation of each reserve and earmarked values as at 31 March 2020 can be found in the council's audited annual accounts for 2019/20.

6.9 For financial resilience the council may need to consider use, replenishment and increase of the unearmarked General Fund Reserve over the MTFS period.

6.10 The overall level of financial resources available to the council is finite and therefore any continued use of reserves cannot be sustained in the longer term without placing the council's financial position at risk. The MTFS recognises that the council's financial reserves are maintained at a prudent level to protect present and future council services.

6.12 The council accepts that while balancing the annual budget by drawing on general reserves can be in certain circumstances a legitimate short-term option it is not considered good financial management to finance recurrent expenditure in this way. Where this approach is adopted the council will be explicit as to how such expenditure will be funded in the medium to long term to achieve financial sustainability. The council recognises that usage of reserves is one-off in nature and must be linked with expenditure and income plans to support financial sustainability in the medium term.

Financial Resilience

6.13 Financial Resilience is about our ability to anticipate, prepare for and respond to the changing financial environment in which we operate and reduce the impact of shocks. In order to be financial resilient, we need to be able to access and utilise our resources when and where they are needed, which also includes our relationships with key partners. Financial Resilience has been broken into the following areas:

- Review of the Council's Balance Sheet;
- Capital financing; investment, and borrowing;
- Build financial resilience and independence;
- Identify those that should pay by minimising fraud and avoidance.

6.14 <u>Review of the Council's Balance Sheet</u> - At the end of the 2019/20 the Council held a range of funds totalling £60.0m including capital grants and useable general fund reserves. Earmarked reserves are generally more visible and subject to more frequent review and redirection, as described in section 6.1.

6.15 Maintaining a strong balance sheet provides the assurance that the Council is in a position to respond in the time of crisis, it can meet its obligations and provides confidence in the Council's ability to participate with our full range of stakeholders. They include our external auditors, our bond holders, credit rating agency, contractors and suppliers, and ALEOs.

6.16 Supporting our resilience in our balance sheet includes:

- In-year financial performance to manage the budget position, including cashflow;
- An annual review of the balance sheet by our treasury advisors, with a focus on capital financing requirement, liquidity and long term borrowing;
- Regular review of usable reserves and the appropriateness of sums earmarked; and
- Regular review of provisions held.

6.17 As part of the Financial Resilience report to the Urgent Business Committee in June 2020 the Council reviewed and released General Fund earmarked reserves. Whilst reserves are not the answer to financial sustainability over time it is possible that some of the funds held could be released if programmes are complete and there is no further planned spending, or if risks have reduced.

6.18 Capital Financing, Borrowing & Investment – The Council has experienced a significant increase in levels of debt over recent years, due to financing the capital programme. This has a significant impact on our revenue budgets, as described earlier.

6.19 Factors that are particularly relevant is the scale and profile of the capital investment programme, interest rates and the timing when borrowing is required.

6.20 Our debt, as at 31 March 2020, for the General Fund is £926m and is expected to rise based on the capital financing requirement by 2022/23 reaching £1.3bn. The actual rate at which the level of debt changes depends on cash requirements and interest rates, this is actively managed through the treasury investment policy.

6.21 Accordingly the proportion of the revenue budget that repayment of debt could reach is 10% before falling in 2023/24.

6.22 The council will therefore not increase the indicative prudential borrowing commitment unnecessarily and review the approved capital programme on an annual basis. A business case approach is taken to capital investment the council will look for evidence of return on the investment, financial and non-financial, when considering best value.

6.23 The business case will include the cost of servicing the debt and anticipated pay-back period in line with the accounting policies

6.24 Capital Investment proposals to save or grow will only be supported when the cashable cost reductions (or increased income) exceed the financing costs of any borrowing needed to fund the investment within the agreed pay-back period for the asset type (to be determined).

6.25 Build Financial Resilience - We need to maintain a relationship between businesses, residents and the Council that is more resilient and self-reliant; increasing collective responsibility and encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving agreed outcomes.

6.26 A stronger partnership will need to be developed with local businesses that we support so they are more engaged in the Council and the Council can learn from them.

6.29 Fraud, Avoidance and Cost Recovery - It is vital that the Council retains the maximum revenue possible to meet our financial pressures. We have robust processes for tackling fraud and avoidance and are working to further develop our anti-fraud measures and approaches.

6.30 We need to ensure that those who should pay do pay, whilst supporting those who are in genuine hardship access the help available to them. The mechanism for how we manage all forms of debt raised can be improved to provide richer information from a single lens about the debtor and the debt.

6.31 We need to optimise our income receipts by ensuring our reducing resources are appropriately targeted, maximising income without increasing the cost of recovery. Enforcement should remain the last resort.

6.32 Overall, the focus on financial resilience has escalated in recent years, in part on the back of some councils in England having received ‘section 114’ reports (presented by the Chief Financial Officer where expenditure is going to exceed income and place the council in financial distress). Cipfa has produced, in conjunction with public consultation and technical stakeholders, a ‘Financial Resilience Index’ to support local authorities in England to consider a range of measures associated with financial risk. The council should explore how those measures could be adapted to assist in strengthening of the council’s financial resilience.

Appendix 1

Strategies on a Page

LOIP
- Place
- Children
- Adults
- Economy

ACC Place
- Local Development Plan
- Local Transport Strategy
- Local Housing Strategy
- Open Space Strategy
- City Centre Masterplan
- Energy and Climate Change Strategy
- Waste Strategy
- Granite City Food Growing Strategy

ACC Enabling
- Medium Term Financial Strategy
- Customer, Digital and Data Strategy
- Estates and Assets Strategy

Partnership
- Regional Economic Strategy 2015-25
- Nestrans Regional Transport Strategy 2013-35
- Cultural Strategy for Aberdeen 2018-28
- Aberdeen City and Shire Regional Skills Strategy
- Visit Aberdeen and Aberdeenshire Destination Tourism Strategy 2018-23
- Aberdeen City Alcohol and Drug Partnership Delivery Framework 2019-22
- North East Flood Risk Management Strategy
- Integrated Joint Board Strategic Plan
- Health and Social Care Partnership Carers Strategy 2018-21
- Joint Commissioning Strategy for Older People 2018-23
- Children's Services Plan

ALEO
- Aberdeen Sports Village Business Plan 2019-20
- Strategy for an Active Aberdeen 2016-26
- Sport Aberdeen – Facilities Strategy Dec 2016
- Sport Aberdeen – Play Parks Strategy
- Sport Aberdeen – Aquatics Strategy
- Aberdeen Performing Arts Business Plan 2018-19
- Aberdeen Heat and Power Business Plan – updated 2018
- Bon Accord Care and Bon Accord Support Services – 5 Year Strategic Plan 2017-22

APPENDIX 2

Outturn 2019/20 £'000	NHCP No.		Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	5 Year Total £'000
		Projects Due for Completion in 2019/20						
663	776	Orchard Brae	0	0	0	0	0	0
5	794	Hydrogen Buses	0	0	0	0	0	0
885	805	Technology Investment Requirements & Digital Strategy	0	0	0	0	0	0
340	808B	New Academy to the South - Infrastructure Improvements	0	0	0	0	0	0
524	810G	Co-mingled MRF & Depot	0	0	0	0	0	0
43	843	Station House Media Unit Extension	0	0	0	0	0	0
50	850	Community Growing Spaces	0	0	0	0	0	0
3,144	856	Acquisition of Kingsmead Nursing Home	0	0	0	0	0	0
17	857	Central Library Roof & Parapets	0	0	0	0	0	0
73	858	Crematorium Refurbishment	0	0	0	0	0	0
397	859	ICT: Human Capital Management System	0	0	0	0	0	0
1,351	870	Town Centre Fund	0	0	0	0	0	0
230	871	Low Emissions Zone	0	0	0	0	0	0
7,722			**0**	**0**	**0**	**0**	**0**	**0**
		Rolling Programmes						
4,727	294	Corporate Property Condition & Suitability	9,673	9,273	8,950	8,000	8,000	43,896
70	877	Northfield Swimming Pool	2,215	2,215	50	0	0	4,480
374	551	Cycling Walking Safer Streets	1,002	0	0	0	0	1,002
2,092	765G	Nestrans Capital Grant	3,602	1,295	1,295	1,295	1,295	8,782
750	779	Private Sector Housing Grant (PSHG)	956	700	700	700	700	3,756
5,355	784	Fleet Replacement Programme (including Zero Waste Strategy Fleet)	4,376	7,214	4,500	4,700	4,900	25,690
5,060	789	Planned Renewal & Replacement of Roads Infrastructure	6,853	4,968	4,968	4,968	4,968	26,725
577	789E	Street Lighting	941	1,000	1,000	1,000	1,000	4,941
1,688	835	Street Lighting LED Lanterns (PACE 5 Year programme)	2,505	1,946	700	0	0	5,151
1,580	861	Additional Investment in Roads	4,136	4,000	0	0	0	8,136
22,273			**36,259**	**32,611**	**22,163**	**20,663**	**20,863**	**132,559**

Outturn 2019/20 £'000	NHCP No.		Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	5 Year Total £'000
		City Region Deal						
0	825	City Deal	44	0	0	0	0	44
105	845	City Deal: Strategic Transport Appraisal	200	613	0	0	0	813
2,000	846	City Deal: Aberdeen Harbour Expansion Project	0	0	0	0	0	0
8	847	City Deal: Digital Infrastructure	1,600	1,871	0	0	0	3,471
108	852	City Deal: City Duct Network	2,000	2,873	0	0	0	4,873
220	854	City Deal: Transportation Links to Bay of Nigg	0	0	0	0	0	0
1,044	860	City Deal: Expand Fibre Network	909	0	0	0	0	909
84	862	City Deal: Digital Lead	189	90	45	0	0	324
60	863	City Deal: Regional Data Network	90	0	0	0	0	90
60	864	City Deal: Sensor Network	90	0	0	0	0	90
3,689			**5,122**	**5,447**	**45**	**0**	**0**	**10,614**
		Fully Legally Committed Projects						
150	587	Access from the North / 3rd Don Crossing	1,238	0	0	0	0	1,238
6,505	627	Aberdeen Western Peripheral Route	7,000	7,000	443	0	0	14,443
6,799	799B	Art Gallery Redevelopment - Main Contract (HLF)	0	0	0	0	0	0
2,083	807	A96 Park & Choose / Dyce Drive Link Road	100	0	0	0	0	100
164	810C	Energy from Waste (EfW) Procurement and Land Acq.	1,147	0	0	0	0	1,147
18,523	810K	Energy from Waste (EfW) Construction	25,634	25,843	0	0	0	51,477
1,300	819	Tillydrone Community Hub	1,475	25	0	0	0	1,500
92,044	821	New Aberdeen Exhibition & Conference Centre	3,500	0	0	0	0	3,500
1,796	824	Provost Skene House	1,459	35	0	0	0	1,494
6,545	824	Union Terrace Gardens	18,732	824	0	0	0	19,556
0	828	Greenbrae Primary Extension and Internal Works	582	0	0	0	0	582
46	831	Stoneywood Primary	544	0	0	0	0	544
3,357	848	JIVE (Hydrogen Buses Phase 2)	5,023	0	0	0	0	5,023
250	849	Cruyff Court	49	0	0	0	0	49
139,562			**66,483**	**33,727**	**443**	**0**	**0**	**100,653**

Outturn 2019/20 £'000	NHCP No.		Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	5 Year Total £'000
		Partially Legally Committed Projects						
0	791	Strategic Land Acquisition	4,093	0	0	0	0	4,093
600	806B	CATI - Berryden Corridor (Combined Stages 1, 2 & 3)	8,450	1,553	1,803	0	0	11,806
2	811	Social Care Facilities - Len Ironside Centre	83	0	0	0	0	83
525	812	Kingsfield Childrens Home	566	10	0	0	0	576
635	820	Investment in Tenanted Non-Residential Property Portfolio	2,235	0	0	0	0	2,235
1,282	824	City Centre Regeneration	873	1,000	300	0	0	2,173
10	836	Flood Prevention Measures: Flood Guards Grant Scheme	100	100	100	100	64	464
62	844	Sustrans Active Travel Infrastructure Fund	291	0	0	0	0	291
3,492	855	Early Learning & Childcare	12,365	7,040	0	0	0	19,405
1,250	869	Safety and Security Measures (including CCTV)	1,440	1,570	0	0	0	3,010
7,858			**30,496**	**11,273**	**2,203**	**100**	**64**	**44,136**
		Projects with indicative budgets						
500	806A	South College Street (Phase 1)	3,800	5,550	850	0	0	10,200
510	809	New Milltimber Primary	9,570	13,648	200	0	0	23,418
0	810J	Bridge of Don Household Waste Recycling Centre (HWRC)	50	50	1,300	0	0	1,400
150	810K	Torry Heat Network	1,950	12,800	0	0	0	14,750
0	838	Flood Prevention Measures: Millside & Paddock Peterculter	0	0	2,000	1,000	0	3,000
1,550	840	Tillydrone Primary School	7,600	12,292	3,050	400	0	23,342
2,570	841	Torry Primary School and Hub	10,070	11,603	285	0	0	21,958
1,338	865	Countesswells Primary	8,950	14,471	225	0	0	23,646
250	868	Car Parking Infrastructure	1,050	0	0	0	0	1,050
0	872	Smart City	360	0	0	0	0	360
800	873	Queen Street Redevelopment (including Mortuary)	1,500	0	0	0	0	1,500
0	874	B999 Shielhill Road Junction Improvements	50	100	490	0	0	640
0	875	Investment in Digital Transformation	2,368	2,253	1,996	1,996	1,945	10,558
0	876	Campus Model for Co-location of Public Services	250	0	0	0	0	250
7,668			**47,568**	**72,767**	**10,396**	**3,396**	**1,945**	**136,072**
188,772		**Totals**	**185,928**	**155,825**	**35,250**	**24,159**	**22,872**	**424,034**

Forecast Outturn 2019/20 £'000	NHCP No.	Non-Housing Capital Programme	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	5 Year Total £'000
0	294		0	0	0	0	0	0
(374)	551	Cycling Walking Safer Streets	(1,002)	0	0	0	0	(1,002)
0	587	Access from the North / 3rd Don Crossing	(2,000)	0	0	0	0	(2,000)
(1,092)	765	Nestrans Capital Works	0	0	0	0	0	0
(169)	784	Fleet Replacement Programme (including Zero Waste Strategy Fleet)	0	0	0	0	0	0
(71)	789	Planned Renewal & Replacement of Roads Infrastructure	0	0	0	0	0	0
(8,821)	799B	Art Gallery Redevelopment - Main Contract (HLF)	0	0	0	0	0	0
(393)	805	Technology Investment Requirements & Digital Strategy	(9)	0	0	0	0	(9)
(375)	807	A96 Park & Choose / Dyce Drive Link Road	0	0	0	0	0	0
0	809	New Milltimber Primary	(2,142)	0	0	0	0	(2,142)
(233)	810C	Energy from Waste (EfW) Procurement and Land Acq.	0	0	0	0	0	0
(18)	810K	Energy from Waste (EfW) Construction & Torry Heat Network	(505)	0	0	0	0	(505)
(10)	819	Tillydrone Community Hub	0	0	0	0	0	0
(3,930)	821	New Aberdeen Exhibition & Conference Centre	(28,020)	0	0	0	0	(28,020)
(467)	824	City Centre Regeneration	0	0	0	0	0	0
0	828	Greenbrae Primary Extension and Internal Works	(750)	0	0	0	0	(750)
(308)	831	Stoneywood Primary	(3,758)	0	0	0	0	(3,758)
(59)	835	Street Lighting LED Lanterns (PACE 5 Year programme)	0	0	0	0	0	0
0	836	Flood Prevention Measures: Flood Guards Grant Scheme	(80)	(80)	(80)	(146)	0	(386)
0	838	Flood Prevention Measures: Millside & Paddock Peterculter	(2,400)	0	0	0	0	(2,400)
0	841	Torry Primary School and Hub	(2,000)	0	0	0	0	(2,000)
0	844	Sustrans Active Travel Infrastructure Fund	0	0	0	0	0	0
0	848	JIVE (Hydrogen Buses Phase 2)	(5,900)	0	0	0	0	(5,900)
(5)	849	Cruyff Court	(45)	0	0	0	0	(45)
(108)	852	City Deal: City Duct Network	(2,000)	(2,873)	0	0	0	(4,873)
(220)	854	City Deal: Transportation Links to Bay of Nigg	0	0	0	0	0	0
(3,492)	855	Early Learning & Childcare	(15,965)	(7,040)	0	0	0	(23,005)
(1,044)	860	City Deal: Expand Fibre Network	0	0	0	0	0	0
(84)	862	City Deal: Digital Lead	(189)	(90)	(45)	0	0	(324)
(60)	863	City Deal: Regional Data Network	(90)	0	0	0	0	(90)
(60)	864	City Deal: Sensor Network	(90)	0	0	0	0	(90)
0	865	Countesswells Primary	(2,484)	(2,500)	(2,500)	(2,500)	0	(9,984)
(1,351)	870	Town Centre Fund	0	0	0	0	0	0
(230)	871	Low Emission Zone	0	0	0	0	0	0
0	874	B999 Shielhill Road Junction Improvements	(50)	(100)	(150)	0	0	(300)
(22,974)		**1. Programme Funding Streams Sub-Total**	**(69,479)**	**(12,683)**	**(2,775)**	**(2,646)**	**0**	**(87,583)**
(27,671)		**2. Capital Grant**	**(18,654)**	**(20,500)**	**(22,500)**	**(22,500)**	**(22,500)**	**(106,654)**
(138,127)		**3. Borrowing**	**(97,795)**	**(122,642)**	**(9,975)**	**987**	**(372)**	**(229,797)**
(188,772)		**Sub-total**	**(185,928)**	**(155,825)**	**(35,250)**	**(24,159)**	**(22,872)**	**(424,034)**
0		**Net Position**	**0**	**0**	**0**	**0**	**0**	**0**

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