

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	10 March 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	General Fund Revenue Budget and Capital Programme 2021/22 to 2025/26
REPORT NUMBER	RES/21/055
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Jonathan Belford
TERMS OF REFERENCE	1 and 2

1. PURPOSE OF REPORT

- 1.1 This report provides the Council with information on both the revenue budget for 2021/22 and capital programme for the period 2021/22 to 2025/26 in order that approved budgets and Council Tax value can be set by the Council for the year commencing 1 April 2021. The presentation of the revenue and capital budgets this year are presented against the on-going uncertainty created by the Covid-19 pandemic.

2. RECOMMENDATION(S)

It is recommended that Council:

2.1 Balance Sheet Recommendations

- 2.1.1 Note the projected balance sheet position including the reserves as at 31 March 2021, shown at Appendix 1;
- 2.1.2 Approve the General Fund Capital Programme as attached at Appendix 2;
- 2.1.3 Consider the capital projects described in Appendix 3 and earlier on the agenda, referred to at paragraph 3.125 in this report, which are not currently included in the General Fund Capital Programme, and instruct the Director of Resources on any action to be taken;
- 2.1.4 Approve the Prudential Indicators as attached at Appendix 4;

2.1.5 Approve the recommended use of reserves and Reserves Policy for 2021/22 as detailed in Appendix 5.

2.2 Medium-Term Financial Projections

2.2.1 Note the forecast medium-term financial projection for the period ending 31 March 2026 as shown in paragraph 3.34;

2.2.2 Instruct the Chief Officer – Finance to refresh the Medium-Term Financial Strategy and report it to the City Growth and Resources Committee on 3 November 2021

2.2.3 Instruct the Chief Officer – Finance to report to the City Growth and Resources Committee, no later than December 2021, on options to balance the budget for financial year 2022/23; and

2.2.4 Instruct the Chief Officer – Data and Insight to report to the Strategic Commissioning Committee, no later than December 2021, on draft commissioning intentions, aligned to 2.2.3 above.

2.3 Revenue Budget Recommendations

2.3.1 Note that the conditions outlined by the Scottish Government within the Local Government Finance Settlement for 2021/22 are met by the proposals set out in the report;

2.3.2 Note the ongoing exceptional operating environment created as a result of the Covid-19 pandemic and that there are known and unknown risks that arise as described in the report. Approve the inclusion of an 'exceptional uncertainty provision' in the budget for 2021/22 to the value of at least £1.5m, and delegate the authority for its use to the Chief Officer - Finance;

2.3.3 Approve the redesign of Council services to address demand, in line with the commissioning led approach described in the report, and to set at least a balanced budget for financial year 2021/22, having due regard to;

- a) The Budget Model as contained in paragraph 3.34 that identifies a funding shortfall of £30.4m for 2021/22;
- b) The impact of service redesign on services and fees and charges described in Appendix 6;
- c) The Reserves Policy, that sets out the Council should maintain uncommitted General Fund balances of £12m;
- d) The Prudential Indicators and impact of the General Fund Capital Programme on revenue expenditure;
- e) The savings options and cost of implementation put forward in Appendix 7 and Fees and Charges proposals in Appendix 8;
- f) The funding announced by the Scottish Government referred to in paragraphs 3.16 and 3.17;

- g) The revenue items referred to the budget process, as shown in Appendix 9;
- h) The Council's Risk Appetite Statement; and
- i) Integrated impact assessments and screening results provided in the background papers.

- 2.3.4 Approve the Commissioning Intentions and Service Standards as described in Appendices 10 and 11 respectively, subject to any amendments approved as per 2.3.3 above, noting that the Chief Officer – Finance has confirmed that the Commissioning Intentions being implemented are consistent with the draft budget for 2021/22 and Medium Term Financial Strategy;
- 2.3.5 Instruct the Head of Commercial and Procurement to incorporate community benefit clauses into new contracts so far as possible with a view to increasing the contribution of the Council to the Local Outcome Improvement Plan (LOIP) outcomes, and submit a year-end report to Strategic Commissioning Committee;
- 2.3.6 Approve the level of funding for the Aberdeen City 21/22 to meet the conditions of the Scottish Government Financial Settlement, described in paragraphs 3.92 and 3.97 to 3.101, and to note that it will be for the IJB itself to determine how it will balance its budget;
- 2.3.7 Approve the fees and charges for the Aberdeen City Health & Social Care Partnership IJB, as shown in Appendix 8;
- 2.3.8 Approve the level of funding for the Council's other group entities and Arm's Length External Organisations (ALEOs), in 2021/22 with reference to paragraphs 3.85 to 3.111;
- 2.3.9 Delegate authority to the Chief Officer – Finance to approve the allocation of Covid-19 related funding distributed by the Scottish Government, described in paragraphs 3.16 and 3.17, and any further sums distributed to the Council, to meet need and demand or to cover for lost income where it arises during 2021/22, reporting the use of funds to the City Growth and Resources Committee in the quarterly financial performance reports;
- 2.3.10 Approve the extension of financial guarantees for Aberdeen Science Centre and Transition Extreme for a period of 18-months, starting 1 April 2021. Terms to be the same as those in place for 2020/21, as referred to in Appendix 9;
- 2.3.11 Approve the procurement business cases, and direct awards of contract where noted, including the total estimated expenditure for the proposed contracts as contained in Appendix 9;
- 2.3.12 Delegate Authority to the Chief Officer – Finance, in consultation with the Head of Commercial and Procurement, to agree the timing for reinstatement of payment of suppliers reverting to Council terms;
- 2.3.13 Instruct the Chief Officer – Finance to give notice to the Board of Directors of NYOP Education (Aberdeen) Ltd to disburse £805,000 to Sport Aberdeen, being a nominated charity of NYOP; and

2.3.14 Instruct the Chief Officer – Finance to recover the full costs associated with being the Administering Authority of the North East Scotland Pension Fund from the Pension Fund.

2.4 Taxation Recommendations

2.4.1 Approve a Band D equivalent Council Tax rate, with effect from 1 April 2021;

2.4.2 Impose and levy Council Tax assessments for the period 1 April 2021 to 31 March 2022 on all chargeable dwellings in Aberdeen City to be paid by the persons liable therefor under the Local Government Finance Act 1992, as amended by the Local Government etc. (Scotland) Act 1994;

2.4.3 Note that the Council implements revisions to National Non-Domestic Rates as defined by the Scottish Government within the relevant legislation and Finance Circulars, with effect from 1 April 2021; and

2.4.4 Impose and levy Non-Domestic Rates assessments for the period 1 April 2021 to 31 March 2022 on all occupiers in Aberdeen City to be paid by those liable.

3. **BACKGROUND**

CURRENT CONTEXT

Recent reporting and political announcements

3.1 The Urgent Business Committee and the City Growth and Resources Committee has received several reports during the financial year 2020/21 on the financial position of the Council during an exceptional year, due to the pandemic. At this juncture the Chief Officer – Finance is confident that the position for the year will be that of a balanced or small surplus position.

3.2 The Scottish Budget for 2021/22 was published on the 28 January 2021 and is now progressing through Parliament.

3.3 It should also be noted that the UK Parliament is due to announce its budget on 3 March 2021 and it may well be that this will ultimately impact or alter the Scottish Government budget and hence subsequently the financial position of the local authority budget allocations. At this stage no further detail is available so this budget report reflects the known position as per the published Scottish Government budget on 28 January 2021.

3.4 The current position for the finalisation and approval of the Scottish and UK Government budgets are as follows:

Scottish Government Budget:

- Stage 1 25 February 2021;
- Stage 2 8 March 2021; and
- Stage 3 9 March 2021.

UK Government:

- UK Budget 3 March 2021.

2020/21 Balance Sheet Position

- 3.5 The position at 31 March 2020 per the audited 2019/20 accounts showed the Council was worth £1.2 billion.
- 3.6 The projected balance sheet position at 31 March 2021 is shown in Appendix 1 and estimates the net worth of the Council will be maintained around £1.4 billion by the end of the year. The projected position excludes any potential revaluations of its land and property assets and movements in liabilities such as pensions which are only reviewed and updated at year end for inclusion within the annual accounts. With reference to the Accounts Commission's recent report on Local Government in Scotland, Financial Overview 2019/20, local external auditors drew attention to the material uncertainty in property and investment valuations due to Covid-19. This uncertainty is expected to continue to exist and may result in adverse movement in asset valuations as at 31 March 2021. Valuations are predominantly based market data and therefore affects both private and public sectors.
- 3.7 It provides information on the currently projected level of reserves and balances held by the Council at 31 March 2020.

Reserves Policy

- 3.8 Reserves can be categorised as usable and unusable. The Usable Reserves of the Council are the accumulated funds that the Council has generated in the past, to provide resilience and options for the future. Usable reserves can be broken down further as follows:
- Earmarked – funds approved by committee to be set aside for known financial commitments or liabilities which will require to be settled in a future financial year. The set aside of funds de-risks the Council from future financial exposure without having to make in-year savings to meet the liability;
 - Uncommitted – a sum set aside, not held for any specific purpose and likely to be utilised in the event of major unforeseen incidents or emergencies;
 - Statutory – these funds are held under statute for specific purposes. The main two funds are the Capital Fund (only to be used for the repayment of debt principal and capital expenditure) and the Insurance Fund (for use in mitigating insurance payment related risks arising from claims).
- 3.9 In relation to the resilience that is provided by the Usable Reserves, it is vital that the Council has a robust Reserves Policy to measure the risks that exist for the organisation, providing the assurance that there is the ability to act in the event of any unforeseen events as well as preserving a robust position in relation to contingent liabilities that it might be exposed to in the future. These potential liabilities are regularly reviewed and updated in the quarterly monitoring reports, as well as disclosed in the annual accounts.
- 3.10 Unusable reserves are not available to be utilised by the Council. These reserves are used for accounting adjustments, reflecting statutory provisions in place to avoid costs being charged to the Council's General Fund while meeting reporting requirements as defined within International Financial Reporting Standards.
- 3.11 A refresh of the Reserves Policy is attached at Appendix 5. In setting its budget, the Council must take account of the Policy. This includes understanding the extent of contingent liabilities referred to above and described in Appendix 13.

Financial Resilience

- 3.12 What has been evident during the financial year 2020/21 is that a single event has the ability to impact the financial position of the Council so significantly, and that it has taken time for funding certainty to filter through. It means that having balance sheet resilience is vital, and the institutional framework within which local government sits is crucial to provide the underlying financial assurance.
- 3.13 Governments have had to ensure financial assistance was provided to both the private and public sector to ensure their sustainability. The continued good progress in preserving reserves should now be considered in the context of how reserves can be further strengthened and built up to provide an even further financial shield to the uncertain financial landscape that sits ahead.
- 3.14 The immediate future remains uncertain, but 3 scenarios can describe what may happen in relation to the pandemic.

Scenario	The level of spread [contained, recurs, escalates]	Effectiveness of public health interventions [effective, partially effective, ineffective]
Scenario 1	Virus contained and pandemic can be de-escalated	Effective/partially effective
Scenario 2	Virus recurrence	Effective/partially effective
Scenario 3	Virus escalation	Ineffective

- 3.15 The uncertain future has implications for the Council's annual budget as well as for the Medium Term Financial Strategy. Using the developed scenarios above it is clear that the extent of 'downside' created by the uncertainty in relation to scenario 2 and 3 in particular means the implications are greater than those shown in the MTFS.

Potential Impact on:	Scenario 1			Scenario 2			Scenario 3		
	Uncertain	Mid way	Certain	Uncertain	Mid way	Certain	Uncertain	Mid way	Certain
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Funding:									
SG settlement	11	5	0	16	11	5	16	16	11
Council tax	1	0	0	2	1	0	4	2	1
Fees/charges	7	3	0	17	7	3	27	17	7
	19	8	0	35	19	8	47	35	19
Expenditure:									
Fixed & Variable	5	4	0	7	5	4	10	7	5
Gap	24	12	0	42	24	12	57	42	24

- 3.16 On the 28 January 2021 the Cabinet Secretary for Finance announced £259m of Covid-19, one-off funding for financial year 2021/22. The value of distribution has not yet been confirmed, but is estimated at around £8m for the Council. At the same time, for the current year, a sum of £110m for the income loss scheme was announced. The Council is likely to receive around £4m of this funding.

- 3.17 On 16 February 2021 the Cabinet Secretary for Finance announced further Covid-19 related funding, including £275m one off funding for financial year 2020/21. Similarly, the value of the distribution is not yet confirmed but is estimated at around £9m for the Council.
- 3.18 The initial impact of Covid-19 restrictions on the Council was detailed in the Financial Resilience report ([RES/20/101](#)) presented to the Urgent Business Committee and that described over £26m of financial impact for the General Fund. Funding has been received to support the further impact of the pandemic and to contribute towards the gap that was created for this year. In 2020/21 the ongoing implications, including cleaning, closures, lost income, changes to customer behaviour, new norms, fewer young people leaving school, more/different equipment and supplies and digital resilience are all likely to be implications for the Council.
- 3.19 At the point of this report, scenario 1 characterises the position which we are currently in as a country. It remains to be seen whether scenario 2 or scenario 3 will come to fruition. Therefore, given the on-going uncertainty we face as a result of the virus, the draft budget has provided additional resilience by way of the inclusion of an exceptional uncertainty provision. And through the assumptions in the MTFs, the budget has a lower expectation of some income streams. The working assumption in the MTFs has been that pandemic implications should be funded by Scottish Government, and not drawn from the recurring Local Government financial settlement. The funding that has been announced will be vital to support the costs that are not included in the draft budget, but the Council will have to respond flexibly during the year. Covid-19 funds incurred in 21/22 will continue to be set aside and controlled during the year by the extended corporate management team.

2020/21 Revenue Position

- 3.20 At its meeting on 3 February 2021, the City Growth & Resources Committee considered the Council's Quarter 3 Financial Performance Report. In terms of the General Fund financial position, the report highlighted that performance for the year to date has remained relatively positive given the impact of the pandemic. Clearly the year has been challenging both from an operational as well as a financial perspective, and a reduction in the forecast deficit from Quarter 2 to Quarter 3 was welcome, with the financial tools available to balance the budget by the year end at the disposal of the Chief Officer – Finance.
- 3.21 The financial outturn for the Capital Programme is lower than budget primarily due to the timing of expenditure, which has reduced the requirement for borrowing during the financial year. The impact of the national lockdown resulted in the entire construction industry being, effectively, closed for around 3 months. Both project timelines and anticipated spend have been reported as being longer and higher than at the pre-pandemic position. Project progress is monitored through the Capital Programme Committee.
- 3.22 The report also focussed on the Council's Balance Sheet and Reserves, providing details as at Quarter 3 and the projected level of usable reserves at year end. The projected position took account of the forecast overall position and use of capital receipts to pay for voluntary severance and early retirement costs.

FINANCIAL PLANNING

3.23 Good financial stewardship should be demonstrated through short, medium and long term financial planning and forecasting. The Council now has in place three core financial planning and forecasting statements which are:

- Short Term Plans – namely a one year budget for the forthcoming financial year with an indicative future two years. This is updated annually;
- Medium Term Financial Plans – this is a forecast of potential scenarios over the medium term which for Aberdeen City Council this is a 7-year examination of scenarios. This is updated every 1-3 years; and
- Long Term Financial Plans – this looks at the long term financial planning and affordability of commitments both known and unknown including long term capital investment. This is planned to be updated approximately every 5 years.

3.24 The purpose of the 3 financial planning documents above is to ensure that the Council is demonstrating an annual balanced budget position coupled with the medium term financial scenario planning and finally a long term affordability plan demonstrating the sensitivities the Council should pay due cognisance to in the long term.

Long Term Financial Planning

3.25 Officers reported to Council on 17 August 2016 with a long term financial plan. The purpose of the plan at the time was to demonstrate to both the credit rating agencies, potential Bond investors as well as general market commentary that the Council had considered its long-term financial position.

3.26 This long-term financial position demonstrated the projected movement in its overall debt portfolio and provided an assurance that the level of capital investment projected at that point in time was affordable but also showed how, in this context, income and expenditure streams would move based on a form of index linking at the time.

Medium Term Financial Strategy

3.27 The Council was presented with the latest 7-year Medium Term Financial Strategy (MTFS) at City Growth and Resources Committee on 28 October 2020. This set out the 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.

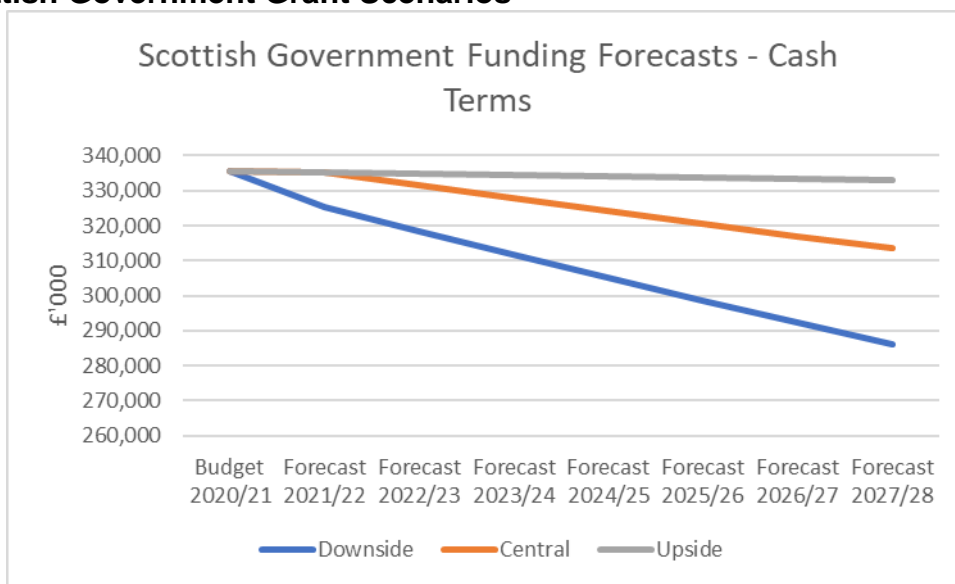
3.28 This medium-term strategy sets out assumptions regarding the ongoing short-term implications of Covid-19 in terms of financial year 2021/22 and then goes on to make some informed assumptions for financial years 2022/23 – 2026/27. It is important to note that Scottish Parliament Elections are still scheduled to take place in May 2021 and will 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.

3.29 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 similarly used by the Office for Budget Responsibility. These scenarios will be refreshed regularly as part of the budget setting and strategic planning processes.

- 3.30 Illustrated within the MTF5 is projected financial scenarios depending on the level of Scottish Government funding. What can be seen is that, notwithstanding the final budget allocations are still awaited, the graph below shows a broadly accurate picture for 2021/22 and shows the need for longer term financial planning beyond the annual budget setting process.

Scottish Government Grant Scenarios



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.

- 3.31 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.

Short Term Financial Planning

- 3.32 Short-term financial planning is, in essence, the setting of a balanced budget for the forthcoming financial year as well as determining the level of council tax. These are statutory requirements placed on the Council.

- 3.33 The short-term planning requires the articulation of the financial settlement into the annual financial plan for the council. Through the local government settlement the Scottish Government have the ability to set out any grant conditions that they would wish to see implemented. Contained within the settlement received to date the following grant conditions have been applied:

- Maintaining the overall national pupil-teacher ratio;
- Continued support by Council's for probationer teachers;
- New Health and Social Care monies to be passported through to support the Health and Social Care Partnership Integration Joint Board;
- Council tax freeze such that the Council will receive an additional £4.2 million of grant funding in 2021/22; and

- Specific grant funding has been included for the final phase of the rollout of expansion of early learning and childcare.

3.34 The financial model, based on latest assumptions is shown below:

General Fund	Budget 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
	£'000	£'000	£'000	£'000	£'000	£'000
Commissioning	24,297	23,780	25,323	26,107	26,807	27,526
Customer	37,819	38,364	39,470	41,289	42,987	44,716
Integrated Joint Board	92,468	95,184	92,468	92,468	92,468	92,468
Operations	266,316	265,766	276,314	286,028	295,829	304,302
Resources	(220)	2,155	4,371	5,813	7,343	9,154
Corporate	43,435	74,311	72,381	72,411	72,463	73,164
Net Expenditure	464,115	499,560	510,328	524,116	537,897	551,330
Funded By:						
Non-Domestic Rates	(164,415)	(255,450)	(255,450)	(255,450)	(255,450)	(255,450)
General Revenue Grant	(171,304)	(84,765)	(76,144)	(72,447)	(68,791)	(65,175)
Council Tax	(128,396)	(128,899)	(129,937)	(130,975)	(132,013)	(133,051)
Core Funding	(464,115)	(469,114)	(461,531)	(458,872)	(456,254)	(453,676)
Net Impact on General Fund	0	30,446	48,797	65,244	81,644	97,654
Impact of Council Increase:						
Council Tax Freeze Grant		(4,206)				
Council Tax increase by 3% p.a.			(3,898)	(7,944)	(12,260)	(16,975)
Updated Net Impact on General Fund	0	26,240	44,899	57,300	69,384	80,679
Impact of Redesign in 21/22 - recurring		(26,561)	(25,756)	(25,756)	(25,756)	(25,756)
Updated General Fund Position		(321)	19,143	31,544	43,628	54,923
Annual Gap between Income and Expenditure			19,143	12,400	12,084	11,295

3.35 The table above draws attention to the total budget gap in 2021/22 of £30.4m. It also shows the impact of balancing the budget in 2021/22, based on acceptance of the grant funding to freeze the Council Tax, an amount that is equivalent to a 3.26% in Council Tax rate, and the redesign of services, which will reduce expenditure and increase income. Further detail of the assumptions used to model expenditure and income are shown in Appendix 13 and a graphical representation of the funding gap is contained in Appendix 6.

3.36 In order to achieve a balanced budget it requires the implementation of a range of changes that will affect both income and expenditure, changes have to be recurring if they are to address financial sustainability. The proposals, in Appendix 7, are predominantly recurring (97%) which means that once delivered they will impact positively on the gap between future income and expenditure, reducing the budget gap in years 2022/23 and beyond.

3.37 This can be demonstrated above (table at 3.34), with the approval of this budget and assuming a Council Tax freeze (in line with the Financial Settlement), and an assumed increase in future years of 3%, the overall impact would be to reduce the gap in the future to £80.7m by 2025/26. The Extended Corporate Management Team are already working on the solutions to this.

3.38 The Council has had to make many decisions and respond quickly and effectively to the pandemic, making sure that it protects its own financial position at the same

time. The financial resilience reports considered by the Urgent Business Committee in the first quarter of the year proved that the Council was well placed to do this and through the quarterly financial performance reports the Chief Officer – Finance is confident that the actions and decisions taken will result in the Council not using any of its uncommitted General Fund reserves. Due to the nature of funding the Council expects to receive in advance of 2021/22, the General Fund earmarked reserves may be substantially increased, the value of this will not be known until mid to late March. We expect the Government to prescribe how these extra funds are to be used as part of the response to Covid-19.

- 3.39 The decisions that were taken by the Urgent Business Committee on 30 June 2020 had both one-off and recurring impact and it is clear from preparing the draft budget that capturing the recurring nature of changes has been an important aspect of service redesign. Key areas where this is vital are Early Intervention and Community Engagement and Customer Experience, where the future delivery of the ongoing customer service model will be optimised to meet demand and ensure customer needs are met.

Scottish Government Financial Settlement 2021/22

- 3.40 The total funding package received for the 2021/22 financial year is £376.0m (£364.6m 2020/21). However, this includes ring-fenced funding to the value of £32.2m (£29.7m 2020/21) and a sum of £4.2m (£nil 2020/21) to compensate the Council if it chooses to freeze Council Tax levels in 2021/22. Which means that the amount available to support the general fund budget is £339.6m (£334.9m 2020/21). At face value this represents an increase in grant funding of 1.4% from 2020/21.
- 3.41 The settlement places new obligations / conditions on the Council, particularly in relation to Health and Social Care funding, including continuing to deliver the real living wage; the impact of the Carers Act expansion; and uprating free personal and nursing care payments. Add to this other policy commitment funding changes and a total of £3.7m of additional commitment has been made by the Scottish Government which it requires Council to spend resource on.
- 3.42 This £3.7m for 2021/22 needs to be removed from the amount available to support existing general fund services (£339.6m - £3.7m = £335.9m).
- 3.43 When £335.9m is compared with the funding the Council has for the same set of services in 2020/21 (£334.9m) then the settlement for 2021/22 has increased revenue funding by 0.3%, or £1.0m.
- 3.44 The level of council funding exceeds 85% of the Scottish per capita and therefore there is no additional funding from the '85% floor' calculation.

Taxation Powers

Non-Domestic Rates

- 3.45 Comparing 2021/22 and 2020/21 is complex due to the impact of Covid-19 Retail, Hospitality and Leisure (RHL) rates relief was announced in March 2020. This reduced the 'normal' level of NDR for Aberdeen City 2020/21 by £86m, from £250m to £164m.
- 3.46 The total level of NDR collectable, and retained, by the Council in 2021/22 is shown as £255m. The total collectable for Scotland is £2,631m (a decrease of 7.4% from 2020/21, and takes account of a 100% relief for three months in the RHL and

aviation factor). These figures will change following the Cabinet Secretary for Finance's announcement on 16 February 2021, where a full year of relief to those sectors will be provided. In relation to the budget setting exercise the value shown, £255m, is guaranteed by the Scottish Government and can therefore be relied upon.

- 3.47 The 2021/22 NDR poundage rate has been provisionally set at 49.0p. The decrease (from 49.8p in 2020/21) will, according to the Finance Circular, make it the lowest poundage rate in the UK.
- 3.48 Transitional arrangements (including 'transitional relief') are proposed to continue until the next revaluation in 2022 for hospitality properties (with a rateable value up to £1.5m) and offices in Aberdeen City and Shire. The level of the cap on bill increases from 2020/21 to 2021/22 will again be 12.5 % real terms.

Council Tax

- 3.49 As detailed earlier as part of the grant settlement Councils will be awarded additional funding for the financial year 2021/22 if they freeze council tax levels. For Aberdeen City Council the value of grant is £4.2m, and is equivalent to a 3.26% increase. For illustrative purposes however the table below shows the impact of alternative increases (which, it is assumed, means that the grant would not be payable).

- Collection rates will be maintained at current levels;
- The number of Band D equivalent properties will increase by 0.4%, such that projected income will increase by £0.5m.

- 3.50 The current Band D value for Aberdeen City is £1,377.30 per annum. The current Band D Scottish average is £1,308. These figures exclude water and waste water charges.

- 3.51 The impact of percentage increases in Council Tax by Band is shown in the table below:

Council Tax Band	2020/21 Council Tax Charge	Indicative 2021/22 Charge if percentage increase applied				
		0.00%	3.50%	4.00%	4.50%	5.00%
Band A	£ 918.20	£ 950	£ 955	£ 960	£ 964	
Band B	£ 1,071.23	£ 1,109	£ 1,114	£ 1,119	£ 1,125	
Band C	£ 1,224.27	£ 1,267	£ 1,273	£ 1,279	£ 1,285	
Band D	£ 1,377.30	£ 1,426	£ 1,432	£ 1,439	£ 1,446	
Band E	£ 1,809.62	£ 1,873	£ 1,882	£ 1,891	£ 1,900	
Band F	£ 2,238.11	£ 2,316	£ 2,328	£ 2,339	£ 2,350	
Band G	£ 2,697.21	£ 2,792	£ 2,805	£ 2,819	£ 2,832	
Band H	£ 3,374.39	£ 3,492	£ 3,509	£ 3,526	£ 3,543	

Note: Figures exclude water supply and waste water collection charges collected on behalf of Scottish Water

Council Tax	2020/21	Estimated Additional Income Collected				
	£'000	£'000	£'000	£'000	£'000	£'000
Collectable	128,396	4,206	4,494	5,136	5,778	6,420
extra c/w CT Freeze			288	930	1,572	2,214

- 3.52 The decision to set Council Tax is part of the budget setting process and is required as part of considering this report. The value of grant receivable for a freeze on Council Tax is £4.2m, increasing the income to the Council beyond this could be

achieved, as shown in the table above. The settlement does not appear to place a cap on the value of increase that could be approved.

- 3.53 It should be noted that substituting government grant, for a Council Tax freeze, has medium and long term implications for the Council Tax base and the income receivable by the Council. Even if it is incorporated into future local government settlements, the amount of grant funding that the Council will continue to receive will be relative to the total funding allocated to local government. There is risk that the real value of that grant funding will fall as it has not been added to the Council Tax base, creating increased dependency on grant funding, rather than enabling the fiscal levers that the Council has.

Service Income

Specific Grants and Recharges

- 3.54 The council receives a significant amount of funding during the year from specific grants (for example DWP funding for Housing Benefits and funding from the Scottish Government for Early Learning and Childcare and Pupil Equity Funds) and recharges other Council accounts for work done (for example to the Housing Revenue Account and Capital Programme).
- 3.55 The income from these programmes of work and specific activities is reviewed regularly and takes account of changes that are expected when planning the budget.

Fees and Charges

- 3.56 Fees and charges raised locally enable the Council to fund some of the services it provides. Clearly, the impact of Covid has had a significant impact on the levels of income that the Council has received during 2020/21 and is likely to continue to do so.
- 3.57 The draft budget for 2021/22 has been prepared prior to the Scottish Government routemap issued in February 2021, and therefore will not take account of the implications that this may have. Through the MTFs and building the budget for 2021/22 care has been taken to consider areas where income is expected to take time to recover after the Covid restrictions are lifted. These include car parking, planning and building fees, events, energy and entertainment.
- 3.58 The implications of the routemap will mean that the Council will require to remain agile and vigilant in relation to loss of income streams through the financial management arrangements. In the event that scenarios 2 and 3, described above, happen then the Council will have to review its position and the exposure that this leads to. As referenced in paragraphs 3.16 and 3.17 the Scottish Government has confirmed some funding for Local Government for 2021/22 (value not yet confirmed at Council level) and this funding will need to be used to address income shortfalls as well as emerging costs. The exceptional uncertainty provision included in the budget will also provide additional resilience.
- 3.59 The proposals in the draft budget for additional income will underpin income levels going forward and reflect the expectations of services in designing their services. As a vital component of the budget, fees and charges have been given significant attention when preparing the redesign work. The proposed changes to prices are included in the schedule of fees and charges at Appendix 8.

BALANCING THE BUDGET

Our Commissioning Led Approach to Financial Planning 2021/22

- 3.60 The Council's approved strategic commissioning approach provides the basis for the development of the Council's planning and budgeting. Strategic commissioning includes assessing and forecasting needs; linking investment to agreed outcomes; considering options; planning the nature, range and quality of future services; and putting these services in place. For Aberdeen City Council, this is reflected in the key elements of a commissioning led approach to planning and budgeting, shown in the figure below.



- 3.61 Adopting this commissioning led cycle ensures that:
- agreed outcomes, and the strategies for delivering those outcomes, are addressing the needs of the city; (**Population Needs Assessment (PNA)**, **Local Outcome Improvement Plan (LOIP)**, **Strategy Suite**)
 - annual planning and commissioning intentions focus on implementing our strategic priorities; (**Council Delivery Plan, Commissioning Intentions**)
 - the agreed levels of service to be delivered are affordable and reflect the demand for those services; (**Service Standards**)
 - a balanced budget is set which aligns to those commissioning intentions and service standards (**Budget**)
- 3.62 This report provides the culmination of the annual Commissioning cycle with the reporting of the Commissioning Intentions (Appendix 10), Services Standards (Appendix 11) and the Financial Model and budget redesign (Appendix 6).

Data Led Analysis of Services and Service Design

- 3.63 In line with the strategic commissioning approach, the 2021/22 planning and budgeting process began in early 2020/21 with a data led, service by service analysis of service demand; statutory duties; workforce; digital transformation; contracts; assets and fees & charges. This provided, both, the basis for designing the services for 2021 onwards, as well as informing the review of commitments and budgets at the Council's Urgent Business Committee in June 2020, in the light of the impact of the Covid-19 pandemic.
- 3.64 The pandemic has emphasised the importance of our health and much has changed in the last year to impact the factors that affect our health, for some this

will have been positive, for many however it will not. It is crucial that as we recover from Covid-19 that our health and the factors that determine how healthy we are, are given appropriate significance. The Council has the ability to design and influence services that deal with the social determinants of health, for example housing, our surroundings, our communities, education and transport. The draft budget has resources allocated to support recovery from Covid-19 as the Council continues to prioritise its staff and spend to critical services, and the Council will enhance this through the use of funding it receives.

3.65 A consistent approach has been taken to the analysis of demand. This approach has provided a model to classify the nature of demand; gain a greater understanding of how to meet that demand differently; and reduce future demand upon services. This will result in a shift away from responsive “negative” demand to planned “value” demand.

3.66 The following classification of demand has been adopted:

- *Value Demand* - these are the demands we want customers to place on the system. These prevent future negative demand through earlier intervention.
- *Negative Demand* - turning off negative demand has an immediate impact on our capacity and resources. Negative demand is further sub-divided into:

<i>Failure demand</i>	- Demand from service failure or poor design
<i>Avoidable demand</i>	- Demand arising from behaviours that can be influenced or changed
<i>Excess demand</i>	- Providing a higher level of service than is needed to meet demand
<i>Co-dependent demand</i>	- Demand unintentionally reinforced and entrenched by service dependence
<i>Preventable demand</i>	- Demand which could have been prevented by intervening earlier

3.67 Each of the Council’s services have undertaken this demand analysis and it has underpinned the design of services for 2021/22 and beyond, which will reduce negative demand and include the identification of related options for reducing cost to ensure the services to be commissioned and the level/standards at which these are delivered are affordable within available resources. A high-level summary of the service redesign options developed are contained in Appendix 6.

3.68 Where service redesign has resulted in a need to amend existing staff structures, within the Council’s functional structure, these have been developed into business cases for consultation both informally and formally according to our usual procedures and in accordance with our legal obligations to consult with staff and trade unions, which will continue following the Council meeting.

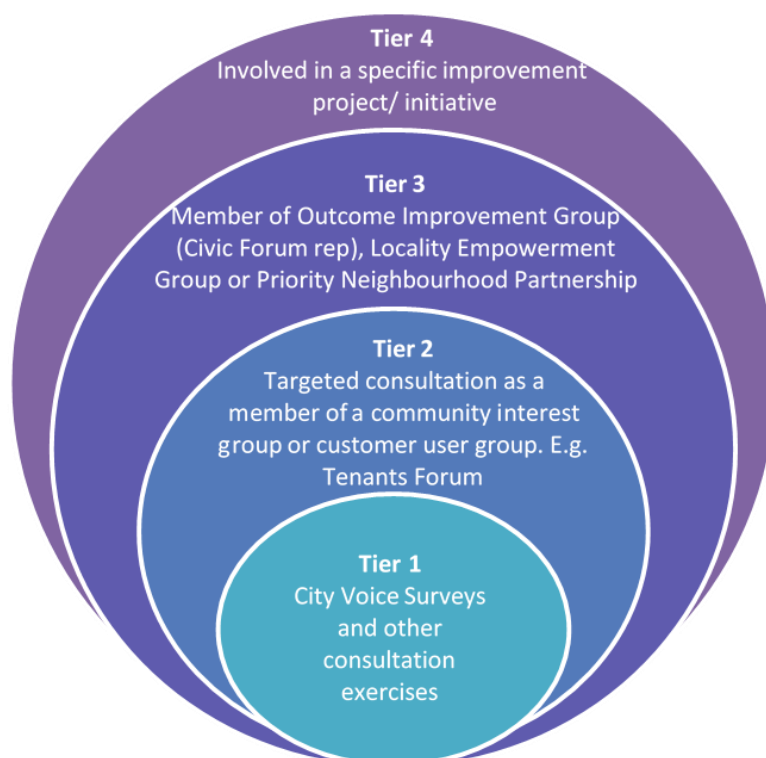
Community Engagement

3.69 Wider community engagement is being carried out as part of the Community Planning Partnerships approach to refreshing the LOIP later in the year. This will include use of a communities engagement ‘values simulator’ software service to assist with community participation in order to gauge the attitude, priorities and values in play within the communities of Aberdeen City and across the City, more

generally. This in turn will inform the priorities within the refreshed Local Outcome Improvement Plan, Locality Plans and underpinning partner strategic plans.

3.70 The Partnership's [Engagement, Participation and Empowerment Strategy](#) is a demonstration of the united commitment to working with communities to tackle the issues that matter most to them. Various means have been adopted to ensure people's views are listened to and decisions about priorities to be included in the LOIP are informed by people's feedback.

3.71 The diagram below depicts four levels of community engagement and the main opportunities for people to be involved in priority setting for the Community Planning Partnership fall into one of these. The tiers range from a universal, public opportunity to feedback at Tier 1, to working directly with people to tackle specific issues and influence change at Tier 4.



3.72 Recognising the challenges faced by people living in some areas of the City and harder to reach groups to engage and participate in community planning, we have made a significant investment in community capacity building to encourage people to get involved at Tier 2 to 4. Of note is our support to Priority Neighbourhood Partnerships and our New Locality Empowerment Groups to engage on a wide range of issues impacting their area. The groups have a remit to represent, connect and empower local people and community groups across all areas of the City. This involves thinking of ways of reaching community members who face barriers because of their race, gender, age, disability, sexual orientation, religion or belief.

3.73 Recruitment to the groups at Tier 2 to 4 is active and ongoing. However, it is recognised that not everyone has the ability and/or desire to participate at this level.

3.74 The use of a citizen values simulator software service will strengthen community engagement in the refresh of the Local Outcome Improvement Plan. This will

complement the more targeted community engagement to be undertaken, primarily with the Locality Empowerment Groups and Priority Neighbourhood Partnerships. It would enable us to gauge the attitude, priorities and values of the people and communities of Aberdeen City and across the City, more generally. The results of the exercise would provide a useful cross check with feedback from those people and groups actively engaged against broader public opinion. Post code analysis will enable us to do the same at a locality and neighbourhood level, providing invaluable data at a local level.

- 3.75 The use of the online simulator will assist with community participation by increasing the reach of engagement activities across a range of social media platforms. It will help engage and involve our people in complex decisions which highlight the hierarchy of values that are in play within a particular community. They will see the consequences of experimenting with different trade-offs and deliberate on their options, then submit considered preferences. The results are indicative but generate meaningful, insightful feedback that can inform decisions about the priorities within the City Local Outcome Improvement Plan and partner resources to improve these. The results will also be useful to individual member partners in developing and agreeing their corporate strategies, budgets and resource plans.
- 3.76 The Council, and hopefully all partners, will use this insight to inform resource allocation decisions and will apply this within the short and Medium Term Financial plan and Strategy.

Strategic Resource Allocation

- 3.77 The community engagement will provide an important insight into the priorities of our communities. This will be further supplemented through the refresh of the Population Need assessment and the insights we have gathered in terms of the harm created by Covid-19 through our socio-economic rescue-plan. The refresh of the LOIP, a 10-year plan, will inform the work undertaken to produce the council's commissioning intentions for 2022/23 as well as the refresh of council's own long term strategies.
- 3.78 The Scottish Government have recently issued a requirement on council's to develop a route map for their administrative area to achieve net zero by 2045. Within both the proposals for 2021/22 council commissioning intentions and budget model, officers, have attempted to identify the council's contribution to the achievement of this net zero target on the city. Once work is complete on the development of a net zero routemap for the city, future commissioning cycle's will need to consider areas of disinvestment in order to enable more investment in the technical solutions required to achieve the statutory target of net zero.

Summary

- 3.79 The effect of service redesign is described in Appendix 6 and is represented by the list of changes that amount to a total of £26.6m, shown in Appendix 7, which includes the grant of £4.2m for a freeze on Council Tax levels. There is a difference in the presentation of the information to avoid duplication in Appendix 6 descriptions and means that there is more specific detail included in Appendix 7 that highlight the key changes being proposed. This list is designed to assist in understanding the impact of redesign and where the Council proposes to achieve cost reductions and income generation to balance the budget.
- 3.80 It is clear that the impact will be felt across the Council, with an expected reduction in workforce through voluntary policies and natural turnover; a change to the level

and type of services the Council procures and commissions, as well as increasing charges for services, which will impact on individual and business customers.

- 3.81 The Council must decide how it balances the budget, having taken into account the information contained in this report and in the scrutiny that they have done prior to the Council meeting. If the redesign in its entirety was accepted as presented in this report, then a balance budget would be achieved.

Referrals from Committee – items not included in the financial model

- 3.82 Appendix 9 provides details of items that have not been included in the financial model for 2021/22 revenue figures. These items relate to revenue expenditure or loss of income and may be based on the impact of capital projects and transactions.
- 3.83 Should the Council wish to accept all or some of these items into the 2021/22 budget, identification of further savings options will be required to allow this, such that the overall budget position is balanced, as is required by statute.
- 3.84 A range of contracts are due for renewal and the financial consequences are included in the draft budget for 2021/22, they are also detailed at Appendix 9 and a recommendation to approve the contract or direct award is included in section 2 of the report.

GROUP ACCOUNTS

Subsidiaries, Joint Ventures and Associates

- 3.85 The Council has several subsidiaries, joint ventures and associates as defined by accounting requirements. Whilst these organisations are responsible for service delivery, the Council provides significant funding to them and therefore remains responsible for ensuring that public funds are used properly and demonstrate best value. In addition to funding provided by the council, these arm length bodies also have discretionary and statutory fees and charges as a further source of income.

Covid-19 Impact

- 3.86 It is fair to say that the impact of the Covid-19 pandemic on the group entities has been enormous, with all facilities closing for those in the sport sectors and increased demands and pressures applying to the Health and Social Care and valuation sectors. The organisations have had to rely on continued funding by the Council, sponsors and government funding schemes, such as Job Retention (furlough) and specific targeted funding through the IJB mobilisation plans.
- 3.87 For the sport sector, facilities to a certain extent reopened after the initial lockdown providing a welcome injection of cash at some facilities.
- 3.88 With current restrictions continuing it is anticipated that the “start” for some facilities and venues in 2021/22 financial year may yet be some months away.
- 3.89 In light of this, the approach to building the budget for 2021/22 has been to apply a flat cash settlement, rather than recommend that any funding is taken away from current budgets.
- 3.90 The Integration Joint Board and Valuation Joint Board are different, substantially funded by public funds, the Finance Settlement has now confirmed that a condition

of the grant is that funding will be passported through to the Integration Joint Board, this is similar to previous years. The Valuation Joint Board has the power to requisition funding from the Council and the budget has been based on a 3% increase, although the setting of its Budget will take place on 5 February 2021.

- 3.91 Whilst the aforementioned describes the impact of Covid-19 on all parts of the Council group structure, it is important to acknowledge that all our partners within the Council group have played a significant part in supporting both the Council to discharge its statutory duties as a first responder as well as supporting the efforts of other first responders.

Summary

- 3.92 The table below provides details of the funding levels currently included in the 2020/21 budget model for these organisations, along with the values as presented by officers as part of the redesign plans for 2021/22. The Strategic Commissioning Committee instruction (COM/20/118) in relation to the operational delivery models for the Tier 1 ALEO's is included within the Councils overall transformation blueprint as part of the commissioned services redesign programme. The programme will include work with the Group Entities and other Tier 1 ALEOs on the structures to design and implement changes to how they do business, with the aim to progress them being more self-sufficient, reducing the financial support from the Council. As part of this initial work, we will consider the potential for cross-working and shared resources across all Group and Tier 1 ALEO structures. The notes, below the table, describe the recommended actions in relation to the Group entities, if relevant:

Organisation	Funding 2020/21 £m	Budget Proposal 2021/22 £m	Funding Change from 2020/21 £m	Funding Change from 2020/21 %
Bon Accord Care (S)	30.304	See note below		
Sport Aberdeen (S)	5.476	5.476	0	0
Aberdeen Sport Village (JV) – (contract year 1 Aug to 31 Jul)	0.845	0.845	0	0
Integration Joint Board (JV)	92.468	95.184	2.716	2.9%
Grampian Valuation Joint Board (A)	1.831	1.886	0.055	3.0%
(S) = Subsidiary; (JV) = Joint Venture; (A) = Associate				

Bon Accord Care

- 3.93 Bon Accord Care is a subsidiary and is funded through the IJB, which is required to indicate the value of the services to be provided through the contract and is therefore included for information only. The impact of any option to change IJB funding, see below, may have a direct impact on Bon Accord Care.

Sport Aberdeen

- 3.94 Sport Aberdeen is a subsidiary and currently receives funding for the provision of a range of leisure facilities across the city. The proposals set out in this report reduce the value of funding that would be awarded to the organisation. The ultimate decision on how that funding reduction was implemented would be taken by the Sport Aberdeen Board.

Aberdeen Sports Village

- 3.95 The Sports Village is a joint venture with the University of Aberdeen, and this means that proposals by the Council will be matched by the University, and vice versa. Proposals are discussed and worked up together, the Head of Commercial and Procurement and Chief Officer – Finance are members of the quarterly ASV Joint Partnership meetings. The ASV Board is responsible for making changes to address agreed funding levels.
- 3.96 The partnership agreement refers to funding being approved on the basis of the Contract Year – which is different from the Council’s financial year. The impact on the Council of any change is part-year for the forthcoming financial year, and this is factored into the budget proposals.

Aberdeen City Health and Social Care Partnership Integration Joint Board (IJB)

- 3.97 The IJB is a joint venture and is funded by both the Council and NHS Grampian (NHSG).
- 3.98 The IJB then directs the Council and NHSG to provide adult social care and health services for which it pays the Council and NHSG as appropriate. The costs the Council incurs in providing those services are included within the relevant services budget. This can be summarised as follows:

	Budget Model 2021/22 Net £m	Value of savings Options £m	Potential 2021/22 Funding Position £m
Estimated net cost of services provided by Aberdeen City Council	131.9	(5.3)	126.6
Less: Allocation to the IJB by the Council	(92.5)	0	(92.5)
Less: Changes per 2021/22 Council Financial Settlement affecting allocations to the IJB	(2.7)	0	(2.7)
Additional cost to be IJB	36.7	0	31.4
Represented by:			
Funding routed through the IJB via the NHSG financial settlement	31.4	0	31.4
Impact of demand, pay and price inflation, to be met by savings to be agreed by IJB	5.3	0	0

- 3.99 The IJB meets on the 23 March 2021 to consider its 2021/22 financial position and medium-term financial strategy.
- 3.100 Additional funding included in the Council’s General Revenue Grant for 2021/22 that has to be paid over to the IJB amounts to £2.320m for continued delivery of the real living wage and implementation of the Carers Act and £0.396m for uprating the Free Personal and Nursing Care allowances. A total of £2.716m representing new expenditure.
- 3.101 The Council will be complying with the terms of the Financial Settlement by passporting the funding to the IJB.

Grampian Valuation Joint Board (GVJB)

- 3.102 The Council’s funding contribution had been prepared based on the Budget Strategy of the (GVJ) Board, although the GVJB has now approved its budget and

therefore confirmed the requisition amount for 2021/22. The requisition is based on its approved budget using the agreed share per constituent council (Aberdeen City 39%).

3.103 The value requisitioned by the GVJB amounts to £1.831m for 2020/21.

3.104 The 2021/22 Financial Settlement has an increased allocation of funding included for the Barclay Review recommendations. This is part of the General Revenue Grant and is not ring-fenced funding, therefore the Council has discretion about how it uses the money allocated.

Arm's Length External Organisations (ALEO)

3.105 In addition to the Group companies, the Council recognises that it has a close relationship with organisations to which it provides significant levels of funding. It carries out increased scrutiny of ALEOs' risk, financial and governance arrangements, through the ALEO Assurance Hub. In addition, ALEOs must report annually to the Strategic Commissioning Committee so that their performance can be scrutinised.

Covid-19 Impact

3.106 Similar to the Group Entities, the impact of the Covid-19 pandemic on ALEOs has been enormous, with all Culture venues closing, reliance on continued funding by the Council, sponsors and government funding schemes, such as Job Retention (furlough) and specific targeted funding through the Creative Scotland.

3.107 For cultural spaces there has been no opportunity to open venues during the whole of 2020/21.

3.108 With current restrictions continuing it is anticipated that the "start" for cultural venues in 2021/22 financial year may yet be some months away.

3.109 In light of this, the approach to building the budget for 2021/22 has been to apply a flat cash settlement, rather than recommend that any funding is taken away from current budgets.

Aberdeen Performing Arts

3.110 Aberdeen Performing Arts is classified as an ALEO from a Council perspective, although it fails the accounting tests in terms of being a Group Entity.

3.111 The basis for this is the value of funding that the Council contributes to the organisation on an annual basis. The proposals set out in this report reduce the value of funding that would be awarded to the organisation. The ultimate decision on how that funding reduction would be implemented would be taken by the Board.

Organisation	Funding 2020/21 £m	Budget Proposal 2021/22 £m	Funding Change from 2020/21 £m	Funding Change from 2020/21 %
Aberdeen Performing Arts (ALEO) (including Granite Noir and True North event funding)	0.985	0.985	0	0

CAPITAL INVESTMENT – GENERAL FUND

Capital Income – Scottish Government Grant

- 3.112 The level of General Capital Grant provided by the Scottish Government is advised through the Local Government Finance (Scotland) Settlement 2021-22 (Finance Circular No. 1/2021) dated 1 February 2021. The General Capital Grant for 2021 is £18.5m, with a further £1.0 of specific grant available for Cycling, Walking and Safer Streets (CWSS) projects.
- 3.113 The core capital grant for 2020/21 is a reduction on £0.2m (1%) on a like for like basis with 2020/21.
- 3.114 In a letter to the Cosla President, dated 4 February 2021, the Cabinet Secretary for Finance outlined the intention in relation to Local Government capital settlement 2021/22 to 2025/26. It is clear from this that flat cash is the working assumption for future years for Local Government.
- 3.115 It is reasonable to expect the change in grant for a single year to be managed through cashflow and the timing of borrowing however further reductions in the grant, or flat cash settlements, increases the overall capital borrowing requirement, which is a key factor in applying the Prudential Code to the Council's capital planning. This also puts pressure on the position that has been outlined to Moody's in relation to the management of total debt for the General Fund, where they expect debt to stabilise and begin to fall during the next three to four years.

Capital Income – Borrowing

- 3.116 Budgeted capital expenditure over the next five years is £386.5m (including forecast reprofiling of unspent budgets in 2020/21), with associated funding, excluding borrowing, of £162.4m. The balance of £224.1 will require to be funded by borrowing, following a significant reduction in borrowing requirement in 2020/21, due to the delays arising from the pandemic.
- 3.117 Borrowing commits the Council to ongoing revenue costs over many years. It is therefore essential that borrowing is affordable and sustainable in future. The borrowing levels are in line with previous projections and continue to reflect the position described to Moody's, the credit rating agency.

Capital Income – Developer Obligations

- 3.118 The construction industry, along with many other parts of the economy, have seen a severe impact on their cash flow and sales figures during the last 12 months. Many of these developments obtain planning permission on the basis of making specific developer contributions to new or improved infrastructure (among other things).
- 3.119 These developer contributions in some instances lead to a capital project being included within the Council's capital programme on the basis of receiving income (i.e., the developer contribution) and the net cost being met from the Council.
- 3.120 It is clear that these obligations are beginning to prove challenging for developers and officers have started to receive correspondence for meetings with developers to discuss these challenges. At the time of this report no specific impact can be reflected but this is highlighted to Council as an emerging issue and risk going

forward. As such, specific project related issues will be reported to the relevant committee during the year as the manifest themselves.

Capital Programme

- 3.121 The Council has been delivering against the 2016 Strategic Infrastructure Plan over recent years and this is now nearing completion, with the majority of projects either underway or completed. Appendix 2 shows the current projected profile of spend based on where various contracts are and expenditure patterns. The Council, through the approval of the Net Zero Vision and associated Infrastructure Plan in May 2020, now has vital documents to assist the development of its capital programme, building on the examples of Energy from Waste project and fleet replacement with alternative fuel vehicles.
- 3.122 In preparing the General Fund Capital Programme for 2021/22 to 2025/26 (Appendix 2) due cognisance has been given to the ongoing revenue pressures within the Council to set a balanced budget. Primarily, this means that new capital investment adds further revenue pressure into the system and with the capital grant allocated to the Council in the financial settlement for 2021/22 this report describes the current programme and items referred to the budget process.
- 3.123 Appendix 2 is broken down into different sections for ease of understanding. It should be noted that in general expenditure is committed for most projects, with the following exceptions:
- Partially Legally Committed Projects. These are projects where part of the budget has been legally committed but there would be scope to potentially reduce expenditure.
 - Projects with an indicative Budget. These are projects where a legal commitment has not yet been entered into, nor has the procurement exercise been completed. Hence, the figures provided are indicative until such time as market pricing has been received.
- 3.124 The profiling of the capital programme has been updated to reflect the latest information, including forecasting the impact of underspending in 2020/21 on 2021/22 to 2025/26.

Referrals to the Budget Process

- 3.125 A separate report on this agenda, the North East Scotland Joint Mortuary – Full Business Case (RES/21/027), was referred simpliciter by the City Growth and Resources Committee to the Council Budget meeting for its consideration. Partners in the project are continuing to consider the funding options for the scheme and the Council officers are working with them to conclude negotiations to enable the funding package to be secured and for the project to proceed. In light of the timing and ongoing negotiations it is recommended that the Director of Resources confirm the outcome of negotiations to the next meeting of City Growth and Resources.
- 3.126 A number of capital projects have been brought forward for consideration as part of the budget setting process and information has been provided to Councillors in relation to the business cases and justification for considering them as part of the future capital investment in the city. A summary of the projects is included at Appendix 3.

Additional Capital Investment

- 3.127 Appendix 3 also includes details of capital investment that the Council can consider in setting their budgets for 2021/22.

Capital Investment Planning

- 3.128 The Council's Capital Investment Plan sits central to the delivery of future planning activities and must adapt to the changing environment in which the Council operates. This includes ensuring that the stretch targets in the Local Outcomes Improvement Plan and Council strategic framework are supported appropriately.
- 3.129 This includes taking account of the decisions made by the Council. In 2020/21 the Council moved forward with commitments to Net Zero, in May 2020 the Urgent Business Committee (PLA/20/088) approved a Net Zero Vision and accompanying Infrastructure Plan. Financing the ambition will come from a range of sources, not just the Council's capital programmes. Developing a finance and investment plan was asked for to support the city's energy transition. This was not possible in the last year, as the work was only commencing when the Covid-19 pandemic changed our priorities. Despite this it is clear that both Governments are committed to economic recovery from Covid-19 through a green recovery. The UK Government Ten Point Plan for a Green Industrial Revolution (November 2020) referenced the impact of Covid-19 on our lives and the "chance to build back better: to invest in making the UK a global leader in green technologies". And the Scottish Government Climate Change Plan 2018-2032 Update (December 2020) is described as "a key strategic document on our green recovery from Covid 19". Restarting that work is tied into the instruction from City Growth and Resources Committee on investor ready proposals, described below.
- 3.130 Different reasons for capital investment by the Council are traditionally in relation to the Institution and the Place, increasingly however the local ambition and objective needs the support and drive of others and therefore investment by others is vital to the future of our city.

Why investment is needed

- 3.131 *Institutional Investment* - this relates to core infrastructure the Council provides for consumption in a traditional sense. The need to provide schools, depots, vehicles, and so on, enables the institutional delivery of services and this demand will likely change over the long term but short term will still need to be regularly reviewed. As the mode and model of delivery changes this impacts on the assets required and needs to be factored into long term strategic planning. Due regard should also be given to recent experience and the impact of the Covid-19 pandemic.
- 3.132 *Place Investment* – this relates to the facilities and infrastructure that the city itself needs to be attractive to living, working and visiting the city. Roads, event spaces, cultural facilities, industrial sites and parks for example, all play a significant role in shaping and making the city. The impact of the pandemic has been severe in terms of how people access business (from retail to hospitality to the workplace) and this is visibly evident within the city centre. The Council will therefore need to make choices around re-imagining the city and beach localities for example.
- 3.133 *Partnership Investment* – making a shift to achieve the ambitious plans the City Region area has means that investment from various sources will be required to deliver the benefits. The value that can be achieved through a range of options is where the likes of shared objectives and vision can be achieved, take the Net Zero vision for example. At the foundation, projects like the Energy from Waste

development would demonstrate what is possible with Council funds. Expand on that ambition and achieving carbon reduction targets for the city will take the investment of many. This shares risk and scales up the possibilities.

Where the funding comes from

- 3.134 Funding has traditionally fallen to the Council, through borrowing, the general capital grant, accessing specific capital grant funding, developer obligations and capital receipts. The need for providing the conditions to lever in partner funding, private investors will be essential to address the scale and speed at which ambition is to be achieved.
- 3.135 How the city benefits from these income streams needs to be delivered in different ways.
- 3.136 Institutional investment will expect to access funding through the adopted business case methodology, working through to a full business case to capture financial and non-financial benefits and determine the relative affordability. These are likely to be financed through equally traditional routes of grant funding or long-term borrowing instruments such as Public Works Loans Board (PWLB).
- 3.137 Place investment should similarly be measured and evaluated on the same basis, with the discipline of a business case. There is more likelihood that this investment proposal will involve others and may bring complexity of various funding streams – such as prosperity funding or specific funding streams from Scottish Government.
- 3.138 Partnership investment can be expected to be delivered on terms that are consistent with the parties involved. The Council in participating will look for the business case approach to be adopted and provide the appropriate governance and decision making points. Investment from private sources to meet the ambition of the city and the wider region will have their own parameters and due diligence to address. The investor criteria may include returns by way of growth or income, but it is clear that all will have a view about risk management and the tolerance and appetite for taking or transferring risk.
- 3.139 To do this will take clarity on the investment proposals that are available. The Council is seeking to do this with the City Growth and Resources Committee instructing the Chief Officer – City Growth to report back to the Committee on the methodology and approach to bring investor ready proposals to the market, including resource implications and timescales for developing the opportunities described within the various economic and infrastructure strategies.

Conclusion

- 3.140 The conclusion, through this approach, there will remain robust and appropriate governance of the decisions to invest in city infrastructure by the Council, and facilitate the investment prospects for matching investment interest in city ambition, particularly for example in relation to action required on the Net Zero Vision and Infrastructure Plan.

IMPACT ON BALANCE SHEET OF BUDGET DECISIONS

3.141 The result of the decisions Council takes in setting its budget will be reflected in the Council's Balance and Reserves, and the proposals in this report reflect the following impact on the Council.

Use of Reserves & Funds	Projected Balance at 31 March 2021 £m	(Budgeted Use) / Contribution to Reserves 2021/22 £m	Projected Balance at 31 March 2022 £m
<i>General Fund:</i>			
Earmarked	19.602	(4.510)	15.092
Uncommitted	12.000	0	12.000
<i>Housing Revenue Account:</i>			
Earmarked	2.308	(0.025)	2.283
Uncommitted	11.282	0.500	11.782
<i>Statutory Funds:</i>			
Capital Fund	9.114	0	9.114
Insurance Fund	2.183	0.250	2.433
City Improvement Fund	0.325	0	0.325
Lord Byron Fund	0.005	0	0.005
<i>Restricted Funds:</i>			
Capital Grants & Receipts Unapplied	0.600	0.400	1.000
Total	57.419	(3.385)	54.034

3.142 It should be noted that late funding announcements in 2020/21 will mean that the Council will carry forward additional funds in the General Fund as at 31 March 2021. This will significantly increase the value of the General Fund Reserve and all the necessary sums will be classified as earmarked for use in the following years. As the values are not yet known these monies have not been included in the above table.

4. FINANCIAL IMPLICATIONS

- 4.1 The level of useable reserves that the Council has, projected at 31 March 2020, means that there is no specific opportunity to draw one-off funding from reserves to balance the revenue budget.
- 4.2 Savings options totalling £30.7m (including grant funding for a freeze on Council Tax) are presented for consideration by Council.
- 4.3 Council must approve savings options to a level whereby at least a balanced budget is achieved, £30.4m, and take account of the revised Reserves Policy that recommends no less than £12m as an uncommitted General Fund Reserve at the end of the financial year.
- 4.4 The Council is encouraged to consider increasing the value of the 'exceptional uncertainty' provision that is included in the draft budget, to further mitigate the potential impact of the current operating environment.

- 4.5 Approval of the redesign of services and cost reduction above this level will have a positive impact on the Council by, a) providing a buffer to mitigate the risk of further cost/demand pressures materialising; b) providing a buffer to mitigate the risk of savings options not progressing as expected; and c) assuming a) and b) do not materialise, by enabling the level of resources held to be increased which will improve overall financial sustainability.

5. LEGAL IMPLICATIONS

- 5.1 The Local Government Finance Act 1992 requires the Council to set its Council Tax for the next financial year before 11 March each year.
- 5.2 The Act provides that the Council Tax amount set shall be sufficient to meet total estimated expenditure. This means that having taking 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.
- 5.3 The Council has a legal obligation to comply with the public sector equality duty and the Fairer Scotland duty. Chief Officers have completed screening forms against the options set out in this report and completed Integrated Impact Assessments were required. These are available in Section 9 and the Council must have due regard to the content of these documents as part of the decision making process.

6. MANAGEMENT OF RISK

- 6.1 The Council approved a [Risk Appetite Statement](#) (RAS) on 9 December 2020. The RAS sets out how the Council will balance its risks and opportunities in pursuit of delivering the outcomes set out within the Local Outcome Improvement Plan and associated strategies.
- 6.2 The purpose of this report is to set a revenue and capital budget. In doing so, the Council should have regard to the approved RAS. In particular, it is worth noting that:
- 6.2.1 The Council is averse to risks associated with impairing financial stewardship, internal controls, and financial sustainability.
- 6.2.2 The Council has an open appetite for short-term risks that support financial performance and mitigate negative external factors.
- 6.2.3 The Council has an open appetite for longer term capital and financial investments provided that the risks are well managed and demonstrate realisable future benefits for delivering the Council's outcomes and commissioning intentions.
- 6.3 The recommendations and risk assessment carried out below are considered to be consistent with the Council's RAS. Should Council be minded to depart from the recommendations, it is important in doing so that the Council considers the potential impacts across the organisation and on the Council's pursuit of strategic outcomes.

	Risk	Low (L), Medium (M), High (H)	Mitigation
Strategic	Use of the General Fund fails to achieve intended strategic objectives.	L	Commissioning approach and service design built around stretch outcomes in the LOIP.
Compliance	Not setting a balanced budget and setting council tax. Not approving recommendations results in non-compliance with law or policy.	L L	Scrutiny and checking of budget proposals by S.95 Officer, reports and budget pack prepared with appropriate detail to enable and support decision making. Commissioning approach provides information on the implications of savings, linked to the service standards and commissioning intentions enables officers to highlight any changes that may be affected. Any changes to recommendations are considered in light of responses to questions and scrutiny by councillors and agreed by Officers as competent.
Operational	Pandemic restrictions undermine budget assumptions on service delivery.	H	Scottish Government funding announced to date for 2021/22 to take account of changes experienced in year.
Financial	Assumptions and judgements used for budget model and options are very different from what the Council faces in 2021/22 leading to additional action having to be taken during the year. Poor financial sustainability	M M	The latest and most up to date information has been used to calculate and shape the budget model and will continue to be refined in advance of the Budget Report being prepared. Process in place for regular updates of

	<p>Poor management of large and complex budgets.</p> <p>Non-delivery of savings options leading to overspends against budget.</p> <p>Variation in tender prices for capital projects, following procurement against the costs assumed at the time of project approval.</p> <p>Insufficient capital receipts to pay for voluntary severance costs that are assumed.</p> <p>Anticipated income from planning agreements (e.g. section 75 agreements) are not received due to impact of Covid-19 on economy meaning less resource available for infrastructure interventions.</p>	<p>L</p> <p>M</p> <p>M</p> <p>L</p> <p>M</p>	<p>medium-term financial position including recognition of potential future liabilities.</p> <p>Regular review of financial information by services and corporately by Elected Members.</p> <p>Savings options are assessed in terms of deliverability.</p> <p>Use of suitably qualified staff or external body to quantify and review indicative project costs.</p> <p>Projected year end value of Capital Fund, and anticipated capital receipts is regularly reviewed. Affordability requires to be revisited as the extent of capital receipts and values are uncertain in the current climate.</p> <p>Regular monitoring of financial data.</p>
Legal	<p>The statutory duty to set Council Tax and a balanced budget is not achieved.</p> <p>Non-compliance with public sector equality</p>	<p>L</p> <p>L</p>	<p>Suitable recommendations are contained within this report to adequately prepare to comply with this duty.</p> <p>Following a screening process, Integrated Impact</p>

	<p>and Fairer Scotland duties.</p> <p>Failure to deliver statutory services during the financial year</p>	M	<p>Assessments have been carried out where required. More detailed work will continue where required. Members should have due regard to the screening forms and impact assessments referenced in Section 9.</p> <p>The recommendations outlined in the report are designed to ensure the Council complies with its statutory obligations in line with the RAS. It is acknowledged however, that given the uncertainty posed by the pandemic, there is greater likelihood that there may be an impact on the Council's ability to deliver statutory services due to circumstances beyond its control. In such circumstances, consideration will be given to any new and relevant laws and/or guidance published by UK and Scottish Governments and the matter will be reported to Council where appropriate.</p>
Reputational	<p>Failure to properly manage finances including the potential impact on the Council's credit rating.</p> <p>Focus on cuts may have a negative impact on citizens' view of service delivery</p>	<p>L</p> <p>M</p>	<p>Regular review of financial information by services, CMT and Elected Members throughout the financial year.</p> <p>Highlight positive changes achieved despite financial constraints.</p>
Environment / Climate	<p>Failure to recognise the local vision and national targets and to make choices that support the delivery of target.</p>	M	<p>Service redesign work will consider, where appropriate, the environmental impact of changes.</p>

7. OUTCOMES

<p>Local Outcome Improvement Plan Themes – In addition to our contribution to the multi agency improvement projects outlined in the refreshed LOIP, Aberdeen City council, as a single agency, makes a contribution through its activities to the LOIP outcomes.</p>	
	<p>Impact of Report</p>
<p>Prosperous Economy</p>	<p>The Council’s commissioning cycle specifically joins the allocation of resources, through the approval of the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 10, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.</p>
<p>Prosperous People</p>	<p>The Council’s commissioning cycle specifically joins the allocation of resources, through the approval of the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 10, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.</p>
<p>Prosperous Place</p>	<p>The Council’s commissioning cycle specifically joins the allocation of resources, through the approval of the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 10, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.</p>

8. IMPACT ASSESSMENTS

Assessment	Outcome
<p>Equality & Human Rights</p>	<p>The Council must have due regard to protected characteristics under the Equality Act 2010. The budget proposals presented in this report have been subject to an impact assessment screening by the relevant Chief Officers. This enables officers to ensure proactive steps are taken to identify and mitigate any potential discrimination and violation of human rights and children’s rights.</p> <p>The screening forms and Integrated Impact Assessments, where they have been required, are available through the link in Section 9.</p> <p>The Public Sector Equality Duty requires Local Authorities to produce a set of Equality Outcomes every 4 years. A new set of Equality Outcomes are due to be considered by the Operational Delivery Committee on 11 March 2021. In addition, the LOIP is due to be refreshed during 2021. A key theme</p>

	running through the LOIP is the tackling of inequalities in the community. The Equality Outcomes and LOIP should, through the planning cycle, help to drive the strategic allocation of resources against those activities which are most likely to have a positive impact on improving equality within the community.
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	<p>The Fairer Scotland Duty places a legal responsibility on the Council to actively consider how inequalities of outcome, caused by socio-economic disadvantage, can be reduced. Budget proposals presented in this report have been subject to consideration of the Fairer Scotland Duty as part of impact assessment screening.</p> <p>The screening forms and Integrated Impact Assessments, where required, are available through the link in Section 9.</p>

9. BACKGROUND PAPERS

Scottish Government Finance Circulars
CIPFA “The Prudential Code for Capital Finance in Local Authorities
Equalities Impact Assessments & Screening –
<https://committees.aberdeencity.gov.uk/ecCatDisplay.aspx?sch=doc&cat=14026>

10. APPENDICES

Appendix 1 – Projected Balance Sheet as at 31 March 2021
Appendix 2 – General Fund Capital Programme 2020/21 to 2024/25
Appendix 3 – Capital items referred to the budget process
Appendix 4 – Prudential Indicators
Appendix 5 – Reserves Policy 2021
Appendix 6 – Commissioning Led Approach and Service Redesign
Appendix 7 – Revenue savings included in Redesign
Appendix 8 – Fees and Charges proposals
Appendix 9 – Revenue items referred to the budget process
Appendix 10 – Commissioning Intentions
Appendix 11 – Service Standards
Appendix 12 – Contingent Liabilities
Appendix 13 – Medium-Term Financial Projection assumptions

11. REPORT AUTHOR CONTACT DETAILS

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