MEDIUM TERM FINANCIAL STRATEGY FOR THE COUNCIL'S GENERAL FUND, 2022

BON ACCORD
ABERDEEN
CITY COUNCIL

Contents Page

1. INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) is a 5 year plan which sets out our commitment to provide services that meet the needs of people locally and represents 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 frame and define the parameters for financial decisions to be taken;
- 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

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

the financial position and financial sustainability of an organisation over the medium term.

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 Furthermore the global health pandemic that occurred in 2020 continues to affect our lives, and the emergence of inflation levels that the country has not seen for forty years, exacerbated by the impact that the Russian invasion of Ukraine, makes the task of medium and long-term financial planning even more challenging.

1.9 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. The national need for financial support has shifted this year to addressing the 'Cost of Living Crisis' with billions of pounds being spent this year by the Chancellor in making payments to support the most vulnerable people from the effects of energy increases and inflation in their daily lives.

1.10 This ongoing consumption of high levels of resources, while offset in part by a wind-fall tax on energy producing companies, still requires economic recovery to be achieved to enable governments to be able to repay the borrowing incurred to support the financial rescue plans currently in place.

1.11 Both the UK and Scottish Government will be required to make political choices in terms of future funding in the short, medium and long term.

1.12 The latest information made available by the Scottish Government was on 31 May 2022, when the Resource Spending Review[2] was published, accompanied by a Medium Term Financial Strategy for Scotland and Review of Capital Spending.

1.13 This has followed the UK Governments Spending Review announced on 27 October 2021 and the Scottish Government, following elections in May 2021, setting out its Programme for Government[3] on 7 September 2021.

1.14 This medium-term strategy sets out assumptions regarding the ongoing, assumed to be, short-term implications of the pandemic and demand changes in terms of financial year 2023/24 and then goes on to make some informed assumptions for financial years 2024/25 – 2027/28.

1.15 The Council will 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 refresh of the MTFS focuses on the changes to a central scenario, while recognising upside and downside scenarios that are broadly in line with previous forecasts. These scenarios should be refreshed regularly as part of the budget setting and strategic planning processes.

1.16 The detail contained in this document reinforces the conclusion in the 2021 MTFS that the following principles are needed to guide our financial management approach.

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

1) 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.

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

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

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

5) Identify and track funding streams being directed from UK Government such as the Levelling Up and Shared Prosperity Funds so that the Council can be pro-active in applying for funding that becomes available to support local outcomes.

---

[2] Investing in Scotland's Future: Resource Spending Review, 31 May 2022

[3] Scottish Government, Programme for Government, 7 September 2021

6) 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 the income that is rightfully owed.

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

8) Be prudent in respect of the financial risks to the council from global events such as the continuing impact of the Covid-19 pandemic, and the war in Ukraine, that may result in customer behaviour changes that affect income.

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

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

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

2) 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.

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

4) Align commissioning intentions, service standards and budget allocations thereby ensuring council focuses on the very highest of priorities and on the most important outcomes.

5) Decommission services and/or reduce service standards where funding levels cannot sustain existing commissioning intentions and service standards.

6) Increase the scale of service redesign to address the emerging financial scenarios.

7) Recognise and act on the reality that financial challenges of the scale reported are not deliverable from small service budgets, and all have to contribute to achieving balance budgets and ensuring financial sustainability is to be addressed.

8) Annual efficiencies from all operations must be delivered.

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

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

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

2) The business case methodology must be used to document capital investment opportunities.

3) Revenue implications of capital investment opportunities must be identified and agreed with the Chief Officer – Finance to incorporate into the council's financial scenario planning.

4) Financial Resilience Framework data must be considered as part of decision making, including reference to the Risk Appetite Statement.

5) Identify and pursue external funding opportunities to support approved capital investment and council priorities.

6) Give priority to the projects that will deliver the greatest return, and this can be measured both financially and socially.

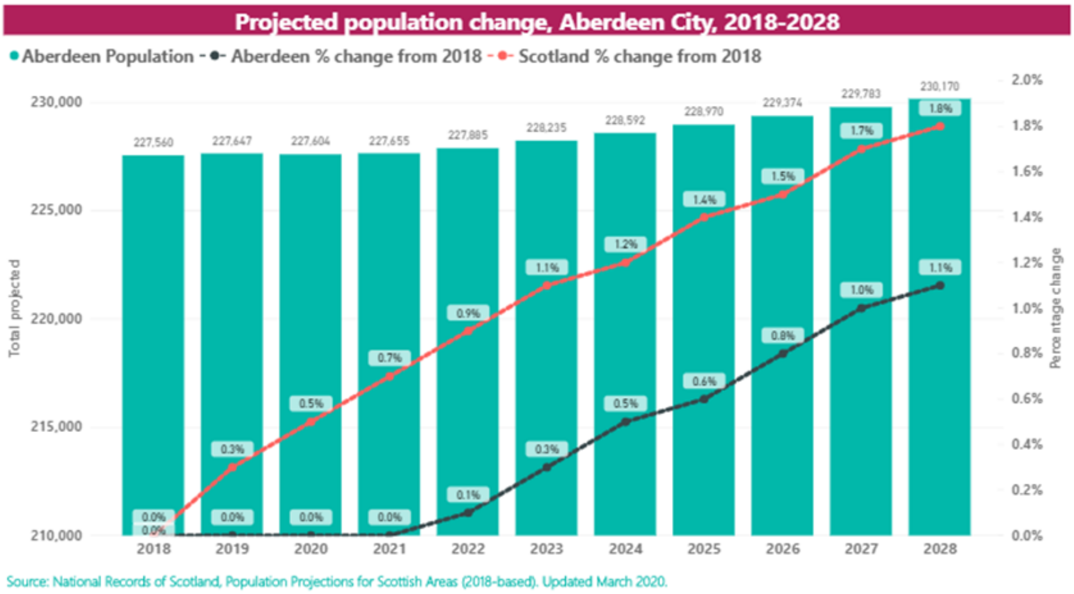
7) Develop a resilience to the current operating environment (e.g. supply chain, inflation, pandemic) and incorporate a contingency into the Capital Programme.

8) Consider and document the financial, legal and reputation implications of proposing to withdraw from legally or partially committed capital projects.

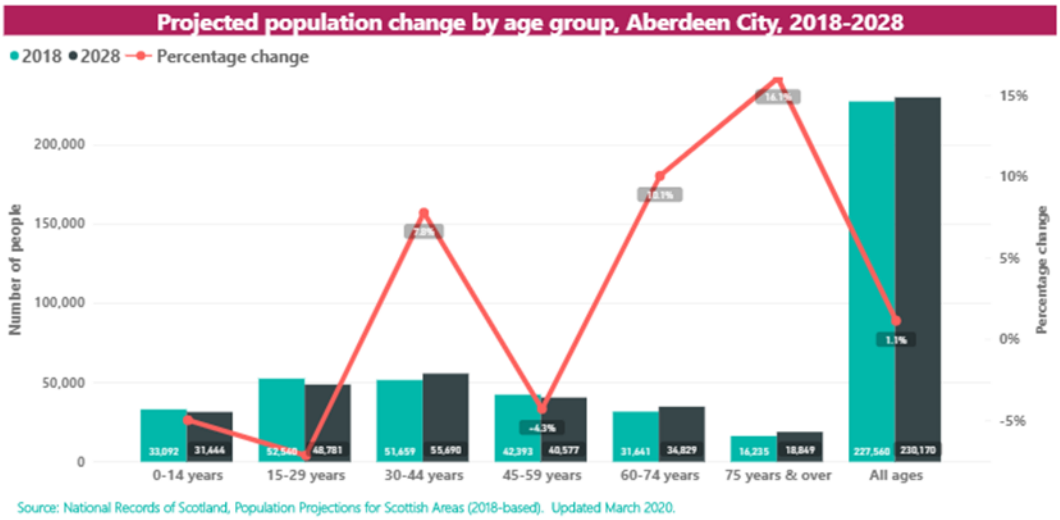
1.20 Aberdeen - Background and Context

1.20.1 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.

1.20.2 Population - The estimated population of Aberdeen in 2021 was 227,430. This is a decrease from the estimated 2020 population of 229,060 (-0.7%). The figure below shows the most recently available population projections for the City and Scotland, as published by National Records of Scotland (NRS). This shows that 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%. However, these projections are based on 2018 data (NRS have delayed their planned update due to Covid-19.



1.20.3 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.

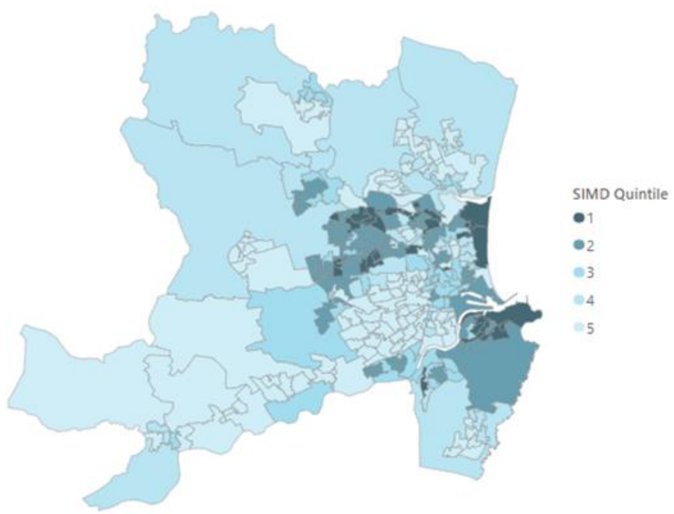


1.20.4 <u>Housing</u> - There is a considerable demand for housing in Aberdeen. House prices fell in the 5 years to 2021, when they returned to 2019 levels and, they remain comparatively high with the Scotland average. Supply of council and social new build properties has recently boosted supply. Recent years have also seen significant increases in supported accommodation both for older people and people with disabilities.

1.20.5 <u>Deprivation</u> - 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. The Population Needs Assessment prepared in advance of the review of the City's Local Outcome Improvement Plan in 2021 highlighted the following key points:

- the impact of the pandemic has been, and will continue to be, felt unequally. This is likely to contribute to greater levels of poverty, inequality and associated vulnerabilities.
- a significant and potentially rapid decline in the working age population is anticipated.
- the city is projected to be amongst the worst affected areas for economic downturn and potential job losses, however, there are still strong economic foundations which can be supported by investment in key infrastructure and a focus on skills, energy transition & diversification.
- rapid and far-reaching change is required to reach the target of net zero by 2045.

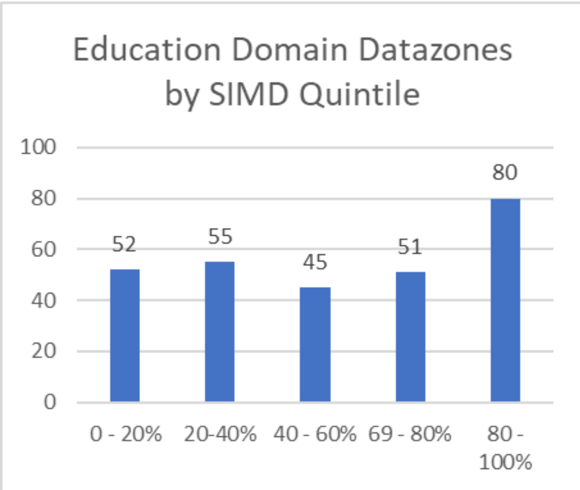
Areas of Multiple Deprivation 2020

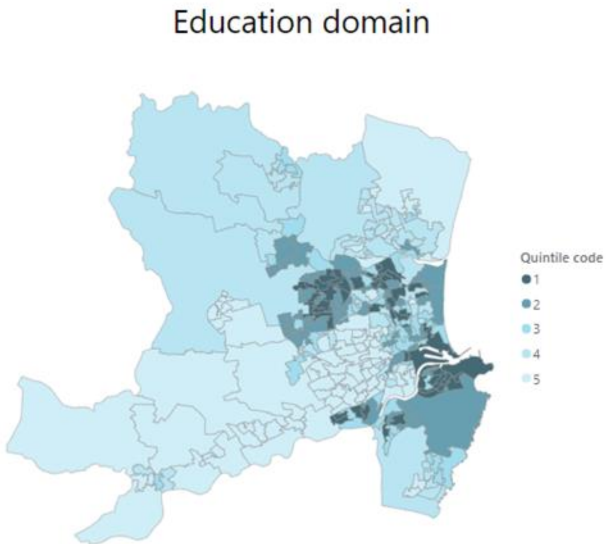


1.20.6 Education - Significant investment has been made, and continues, to modernise the city's school buildings. In line with falling population projections and the potential increase in digital methods of learning, the school estate will continue to be reviewed to ensure it matches future levels and nature of demand. Education is the single largest area of spend for the Council and most funding received for schools is based on the population of children and young people. School rolls have increased over recent years and most recent school roll forecasts project this will continue. The rate of school age population change, compared to the rest of Scotland could have 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. This will be impacted further because of the pandemic.

1.20.7 Recent evidence from school rolls shows an increase in the number of children coming to the city with parents, who are studying at the two Universities, the surprisingly large numbers have been seen as the world emerges from the Covid-19 pandemic and students and study programmes catch up. It is understood that the Universities will continue to seek to attract foreign students, the impact on school populations is unlikely to be at its peak yet. The war in Ukraine has seen over 1,000 refugees arrive in Aberdeen, creating more demand for the services with particular emphasis on schools. With the war continuing it is unclear how long the demand will remain or how much further the numbers will rise.

1.20.8 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.





1.20.9 Children's Services - Aberdeen has more than 500 children who are "looked after" by the authority (LAC). This is, proportionately the same as the national average (2021 comparisons), 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 is largely consistent with the national average of children on the child protection register (2021 comparisons).

1.20.10 Employment - Aberdeen has had historically high employment. Between January 2020-December 2021 the employment rate for the working age population in the region was 76.9%, which was above the rate for Scotland (73.1%). The three major Scottish cities were most affected during the pandemic in terms of job postings, with a larger drop off than the Scottish average.

1.20.11 Claimant count in Aberdeen City had risen from 4,165 individuals in March 2020 to a high of 9,725 by February 2021. Since that high, numbers have decreased month on month, with the 5,350 individuals in May 2022 the lowest recorded since March 2020.

As claimant count provides data on individuals receiving out of work benefit, this shows the situation to be improving.

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

1.21.1 After over 2 years of the UK having to respond and start to recover from the Covid-19 pandemic it remains the case that the city and the council feel the effects of the restrictions, the changes in lifestyle and behaviours and in market conditions. How long these will last and whether they are simply the start of shift in what will be the future normal is hard to say.

1.21.2 What is clear is that the country has not seen the pandemic come to an end, despite the removal of all but a few restrictions and rules over how we live our lives. There is debate about how we should define "the end" - two 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.

1.21.3 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 from the Covid-19 pandemic. Vaccination programmes can again be expected to step up ahead of the winter.

1.21.4 In contrast to the financial support provided in the last two financial years, 2022/23 shares none of those additional funding benefits. The financial settlement for Scottish Local Government contained no additional funding for Covid-19 related pressures, with Councils relying on funds retained on the balance sheet at 31 March 2022 to provide resilience into and beyond this year.

1.21.5 In the current year the Council has seen a continued Covid-19 impact, with behavioural and market changes that have affected income from the likes of car parking and property estate. This continues to be reported in the Council's quarterly financial performance reports.

1.21.5 The impact for next financial year is again difficult to predict with a high level of uncertainty about how the pandemic will continue or end, as described above. At a local government sector level, 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 2023/24 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 could be at serious risk.

1.21.6 Further risk arises from the consequences of depressed or falling property valuations from the implementation of the Non Domestic Rates (Scotland) Act 2020, Scotland is moving to a three-year revaluation cycle, the next being April 2023, based on property valuations on 1 April 2022. Trading results in the period to 1 April 2022 is going to be particularly important as the valuation is completed.

1.21.7 That said, the latest Scottish Government forecast[4] shows that the NNDR pool will increase by over 20% in real terms over the next four years, showing optimism in future values.

1.21.8 In addition, the local government sector continues to see increases in demand for services and changes in the need for our services, especially education where the spike in senior phase pupils experience in 2020 has not yet reversed.

1.21.9 The Council remains aware of the financial risks from its arm's length external organisations (ALEOs), and although all have remained self-sufficient throughout the challenges of the pandemic, relying on government grants and other financial support available as well as drawing from their reserves, they always have the potential to require funding from the Council in economic shock situations.

1.22 Increased financial risk and sensitivity – cost of living crisis, inflation and supply chain volatility

1.22.1 A combination of factors including ongoing market impacts from the pandemic, the UK's exit from the European Union and the invasion of Ukraine affecting access to supply markets in Russia, Ukraine and surrounding area, have led to a massive rise in inflation and a cycle of market and price volatility and shortages across many commodities which is having a negative impact on the delivery of capital projects, on budgets (General Fund and HRA), on revenue expenditure in the delivery of services and procurement processes carried out for affected commodities.

1.22.2 A forty-year high inflation across many parts of the world, including the UK, is presenting a significant challenge for organisations. The Monetary Policy Report[5] published by the Bank of England in August 2022 estimates that inflation may rise to 13% within the current year and the economy will slow, resulting in recession. For July 2022 the rate of inflation (CPI) was at 9.4%. The chart below from the report shows that inflation is anticipated to fall next year and be within the 2% target level in two years' time:

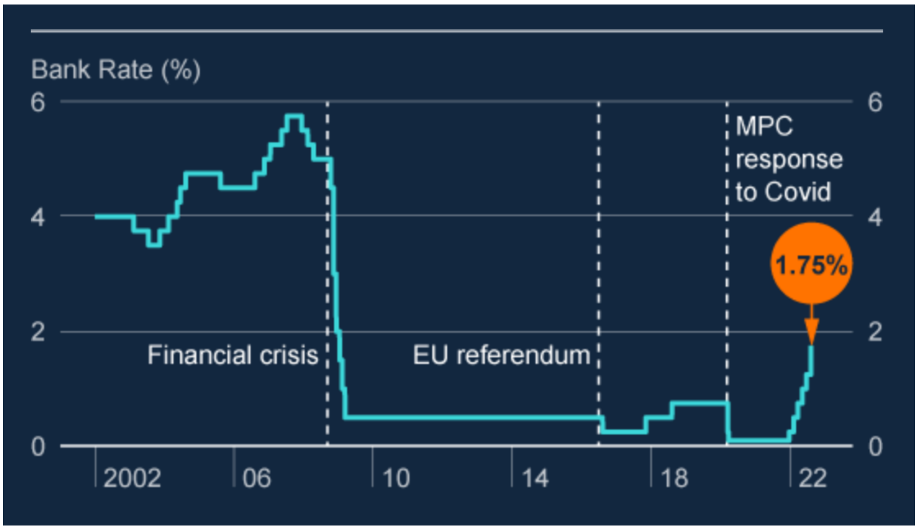
[4] Scottish Government, Resource Spending Review, 31 May 2022, Annex A: Table 13

[5] Bank of England, August 2022, Monetary Policy Report

Chart 1: Inflation (CPI) Forecasts, Bank of England, August 2022

1.22.3 The Bank of England, in response, has increased the base interest rates for bank lending monthly since January to control inflation. The rate is now 1.75% (up from 0.25% in January).

Chart 2: Bank of England Base Rates (%), August 2022



1.22.4 It is not yet certain if this will address the inflation pressure in the timescale predicted given the complex set of market conditions, and the supply side nature of the inflationary pressure. The global market is continually evolving in these uncertain times, and it is difficult to predict how long markets will continue to experience this level of volatility e.g. the full impact of the situation in the Ukraine is extremely difficult to anticipate and it remains to be seen whether this will extend past 2022. However, if inflation decreases as anticipated in 2023 then this would indicate more stable markets lie ahead.

1.22.5 Essential day to day commodities are experiencing some of the worst of the price changes, and the impact on energy bills that the cost of supplies are having on household and business utility bills is extremely well documented, before it was exacerbated by the war in Ukraine and countries moved to replace Russian oil and gas with other sources. Citizens and businesses have seen the increase in petrol, diesel, gas and electricity rising to levels that have seldom been experienced before. Limited government intervention is making support available to everyone, a cut in fuel duty and a reduction on Council Tax for many, with more support to come in the Summer and Autumn. However businesses, including Councils, are not protected in the same way and face extraordinary levels of cost and spending on utilities, gas prices for the council are up over 160% on last year.

1.22.6 Utilities and fuels are not the only commodities to suffer, with food and basic ingredients and supplies such as bitumen also recording large increases. It is becoming more and more common for price increases to be passed on to consumers from the manufacturers as the prices don't let up. All add up to a cost of living crisis.

1.23 Increased financial risk and sensitivity – Council resilience

1.23.1 To counteract some of the risk, mitigation in place includes retaining funding provided over the last two year that the Council has been able to avoid spending. This remains available as earmarked reserves on the Council Balance sheet at the end of March 2022.

1.23.2 The Scottish Government has approved a few fiscal flexibilities over the last two years, and these have been in place to provide a degree of support to the Council. The Council is using the deferral of debt in order to balance the budget in 2022/23 and will continue to examine the opportunities made available by the Concession agreement flexibility, the guidance for which has recently been published. There are currently two:

1. Concession agreement arrangements, for example PPP/PFI service contracts, applying revised international accounting standards that are due to be implemented in 2022/23 could provide scope to make debt repayments included in these contracts over an extended period (the life of the assets rather than the life of the contract). The original intention was evaluated to have a significant impact on the council's payment profile however a revised scheme has recently been approved by the Cabinet Secretary for Finance and the Economy and guidance issued, which is still being analysed. Any benefit arising from this scheme should be linked to investment in the future of services, with a demonstrable return.
2. Loans fund repayment holiday, deferring the planned repayment of debt principal for 2020/21, 2021/22 or 2022/23 (not all 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. It has been an important flexibility for the current year that assists in the short-term but cannot be relied upon again.

1.23.3 The Council's approved Reserves Policy confirms a commitment to retaining a minimum of £12m of uncommitted General Fund reserves to rely on in an emergency. As at 31 March 2022 that commitment was met, with £12m held in the General Fund Reserve.

1.24 Conclusion:

1.24.1 The council's operating environment remains extremely complex and multi-dimensional, with that level only increasing in the last year, alongside an increase in the demand it experiences 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.

1.24.2 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. There is the addition of another unknown 'end date', the war in Ukraine. The increased expectation of continuing to deliver business as usual in the face of everything remains a major and sustained challenge.

1.24.2 Throughout 2020 and 2021, we saw a considerable financial injection from government to mitigate the impact of the required public health measures to the virus. This has not been extended into 2022/23, therefore the council is living within the means it has. Generic financial support to councils has not been forthcoming to any material extent, and it is therefore unlikely to feature in the short to medium term either

1.24.3 Drawing on the detail in Section 3, following the Scottish Governments Resource Spending Review, published on 31 May 2022, the council must address the cost pressures it faces with a funding scenario that will offer no better than 'flat cash' for the next three years and potentially a 1% increase in year four (2026/27). The annual Scottish Budget and associated Local Government Settlement will confirm the full extent of the funding package for Local Government

1.24.4 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.

1.24.5 Fees and charges (internal and external) should be expected to remain a positive contributor to the council although the impact of the pandemic still being felt in the current year and behavioural and market changes will continue to shape large sums of income going forward.

1.24.6 Balancing the budget and MTFS using the mechanisms described in Section 5 will mean that proposals for a 2023/24 budget [and indicative budgets for the four subsequent years] will be submitted to council's budget meeting in March 2023.

2. THE FUNDING CONTEXT BEYOND 2022/23

2.1 Economic Outlook

2.1.1 While 2020 will undoubtedly be seen as a year when everything changed it was not meant to be as persistent and dominant moving forward. 2020 saw 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. Today the pandemic is still with us, it is different and with restrictions being all but gone from daily life, implications linger on providing no certainty on the future direction it will take.

2.1.2 The Office for Budget Responsibility[6] said in March 2022 "Since our October forecast, the Omicron variant emerged, spread rapidly, and then declined. But with hospital admissions rising again in recent weeks in the UK, and in other parts of the world, it remains too early to consider the pandemic as over."

2.1.3 It is hard to say that the implications run as deep as they did in 2020 and 2021, but it would also be wrong to say that everything was back to normal, or as things used to be. The Council continues to feel the impact of lower income from parking and from commercial property; a shift in demand for services, such as education from higher school rolls; and additional cost to deliver capital investment.

2.1.4 As the country, and the world, thought it was through the worst of the pandemic, this MTFS is presented in the context of a further global shock, the invasion of Ukraine by Russia in February 2022. This brought untold human misery to the people of Ukraine, caught up in a conflict that continues today, with no end in sight.

2.1.5 The war has also brought repercussions for the global economy, already damaged by the pandemic, by supply bottlenecks and by rising inflation.

The OBR[7] observed that "A fortnight into the invasion, gas and oil prices peaked over 200 and 50 per cent above their end-2021 levels respectively." The UK being a net importer of energy, higher global prices for energy will weigh-down a UK economy that is only just getting back to pre-pandemic levels.

2.1.6 The extent of the impact on the supply chain, the cost of commodities and inflation was reported to the City Growth and Resources Committee and detailed the impact that the volatility was having on the Council. The real impact is not only being experienced by the public sector, but for individuals, families, businesses, in fact everyone, the added costs are very real. The squeeze on household and business

---

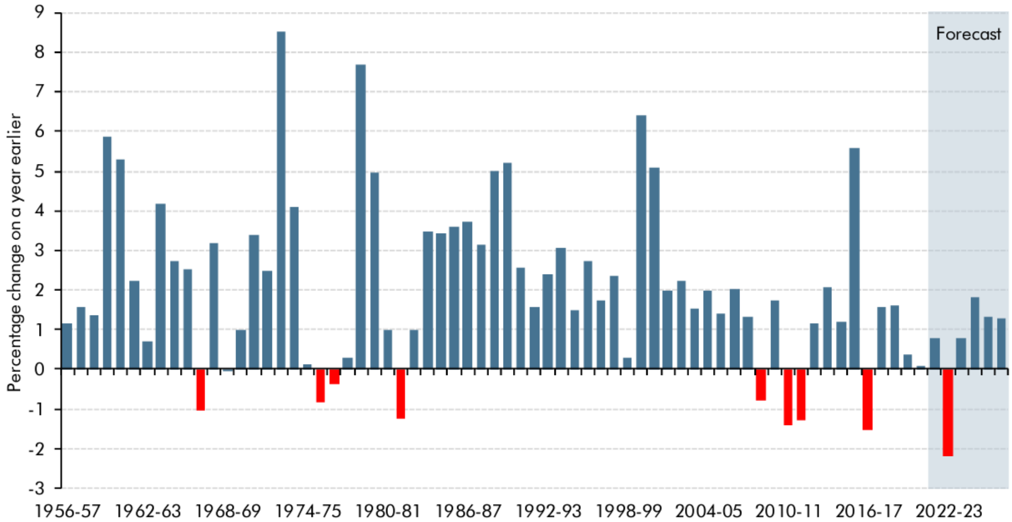
[6] OBR, March 2022, Economic and Fiscal Outlook

[7] OBR, March 2022, Economic and Fiscal Outlook

incomes does not make for good reading as a cost of living crisis emerges and continues to deepen.

2.1.7 The OBR[8] forecast that the cost of living would lead to a lowering of living standards, by 2.2% in 2022/23, their largest financial fall on record, and not expected to recover until 2024/25.

Chart 3: Change in real household disposable income per person



Source: ONS, OBR

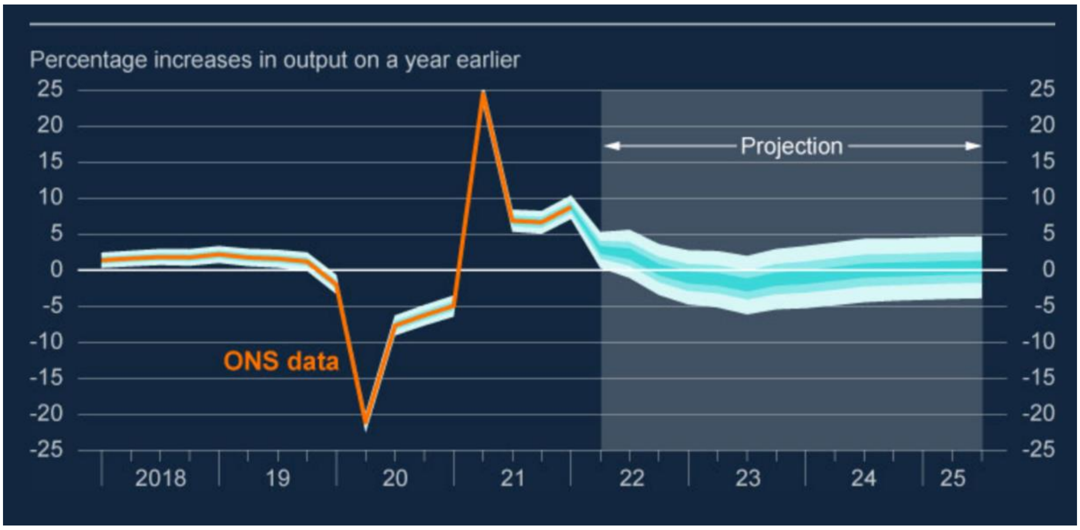
2.1.8 The impact on the economy was brought into sharp focus in recent weeks as the Bank of England forecast that the UK will enter recession. Their Monetary Policy Report[9] concludes that a key judgement is "given the sharp decline in household real incomes, consumer spending falls over the next year and the UK economy enters recession." This reflects the adverse impact of the steep increases in energy and non-energy commodities on UK household incomes and spending.

2.1.9 These pressures will increase further as the price cap on energy costs will be reset in October and will feed through to consumers, raising tariffs for most. The support in place to help people with these costs has already been distributed through different means over the course of the last few months and further support is in place to assist energy bills directly from October through to March 2023 and for most will be applied to energy bills. This will not prevent what the Bank of England sees as inevitable, even in the most positive of forecasts recession is expected if only for a short period.

[8] OBR, March 2022, Economic and Fiscal Outlook

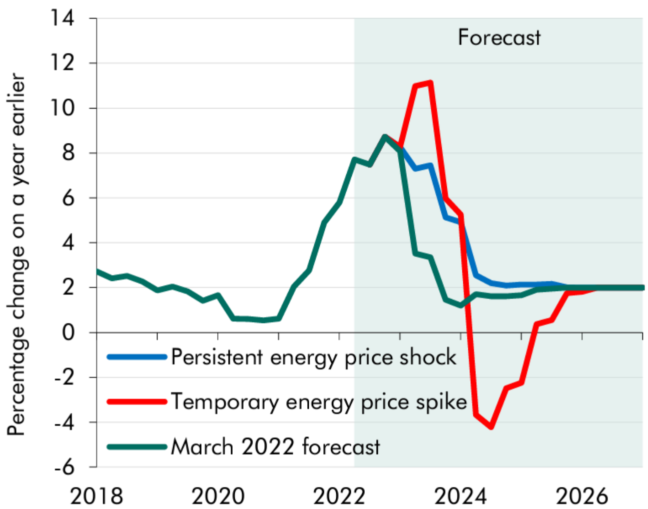
[9] Bank of England, August 2022, Monetary Policy Report

Chart 4: GDP growth projection based on market interest rate expectations, other policy measures as announced



2.1.10 Consumer Prices Index (CPI) forecasts have been knocked aside by the events of recent months as inflation has continued to rise steeply in the face of energy and food price rises, and consumer good supply issues. The latest forecasts by the OBR[10] show the difference that exists now between their forecasts made in March 2022. And it is somewhat comprehendible that in the last MTFS the forecast for inflation was set to reach 4.4% in 2nd quarter of 2022, yet the actual CPI for June 2022 is 9.4%. According to the chart inflation should return to the Government target of 2% in the medium term. See Chart 5.

Chart 5: CPI Inflation

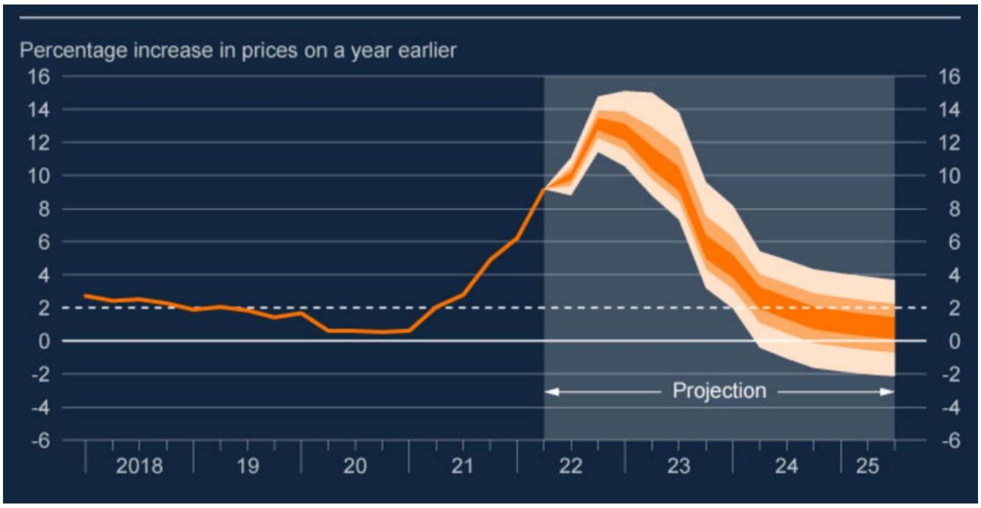


2.1.11 The Bank of England, in their August 2022 Monetary Policy Report forecast that inflation (CPI) will not only continue to rise this year, but peak at 13.1% by the end of

[10] OBR, July 2022, Fiscal Risks and Sustainability slides

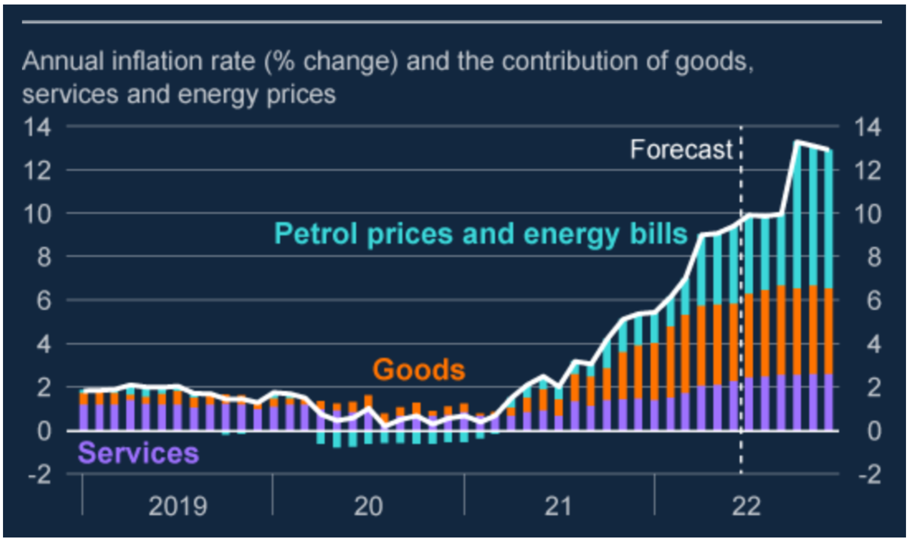
Quarter 4, 2022, before falling back to the long-term target rate of 2% in Quarter 3 of 2024, dipping below this thereafter.

Chart 6: CPI inflation projection based on market interest rate expectations, other policy measures as announced



2.1.12 To illustrate just how much of an impact the energy crisis has on our cost of living the Bank of England produced[11] the following chart, that shows the relative proportion of forecast inflation to be created by good, services and fuel and energy prices.

Chart 7: CPI Inflation components

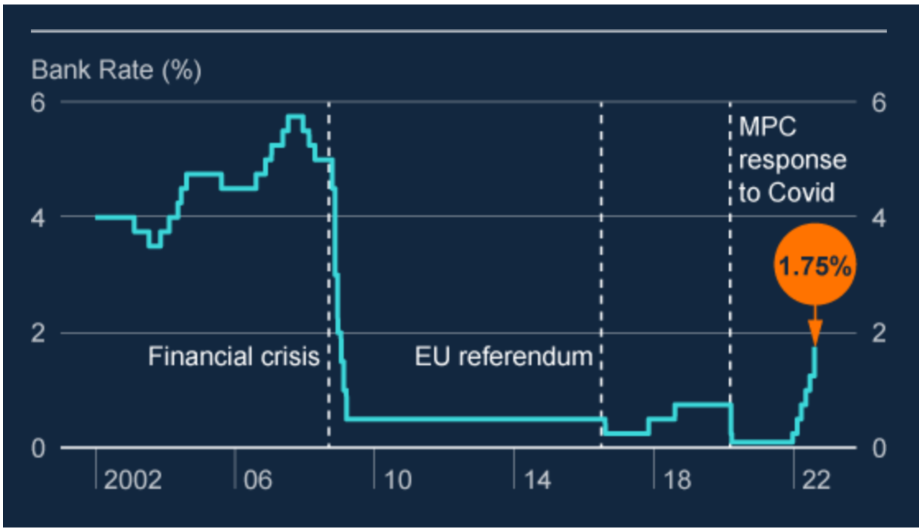


2.1.13 To control inflation the Bank of England has exercised its power to increase the cost of borrowing, and in doing so, encourage people to save money, the result is that, on the whole, less is spent on goods and services. Less spending on goods and services means prices tend to rise more slowly, reducing the inflation rate. Over the last 8 months the Bank has increased the base interest rate steadily, with the rate reaching

[11] [Bank of England, August 2022, Monetary Policy Report]

1.75% following the July 2022 meeting of the Bank's Monetary Policy Committee (MPC).

Chart 8: Interest Rates

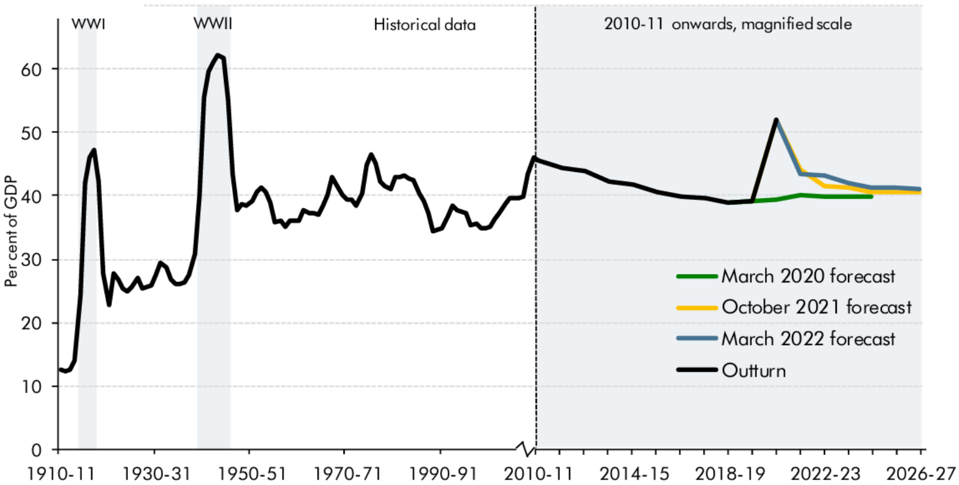


2.1.14 On public spending the Office for Budget Responsibility stated[12] "The pandemic and the fiscal policy response to it pushed public spending to a post-World War II high of 52 per cent of GDP in 2020-21. It is expected to fall by £88 billion (8 per cent) to 43 per cent of GDP in 2021-22 [Chart 9], but that remains 4 per cent of GDP higher than the pre-pandemic level in 2019-20." The reduction in 2021/22 arose from financial support schemes being turned off, such as the furlough scheme and business grant schemes coming to an end.

2.1.15 It remains to be seen if the reductions in spend will be sustained given the cost of living crisis, the support being provided for that (subject to additional taxes on the energy sector) and the additional costs of the war in Ukraine, whether that be in support to the war effort by the UK or in support of refugees coming to the UK for safety and security.

[12] OBR, March 2022, Economic and Fiscal Outlook

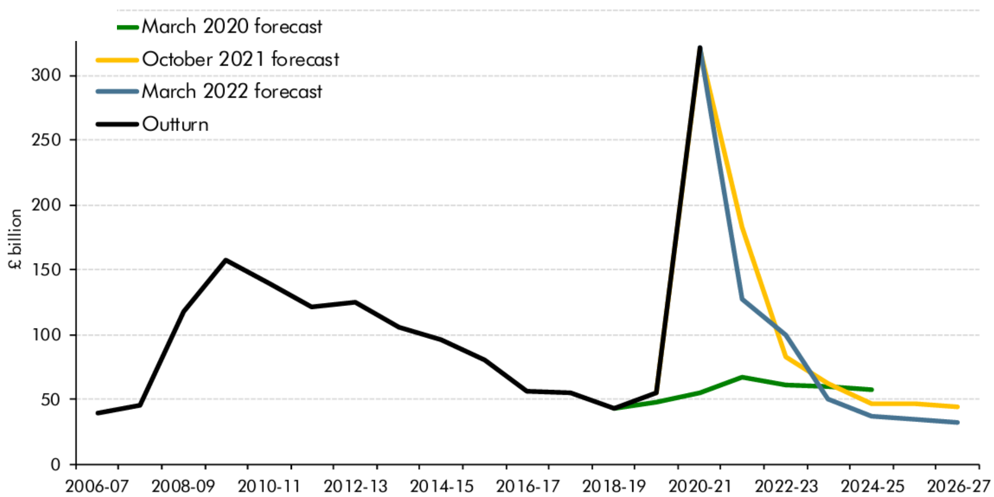
Chart 9: Public Spending as a percentage of GDP



Note: We have increased the GDP denominator in forecast years for our previous forecasts by the upward revision to 2020-21 nominal GDP in the recent Quarterly National Accounts data. This is to enable like-for-like comparisons with our March 2022 forecast.
Source: Bank of England, ONS, OBR

2.1.16 The impact of this and resultant Public Sector Net Debt level must be seen in the context of recent changes to net taxes, with not only the 1.25% levy for health and social care on employees, employers and the self-employed, but also the corporate and personal tax increases included in the March 2021 Budget. The position for borrowing in 2021/22 was revised down by £55bn, relative to the October 2021 forecast, while tax receipts were revised up by £38bn, and both help to deliver a lower level of borrowing required in 2021/22 than forecast. Despite this the forecast for 2022/23 is not so favourable, with £115bn of borrowing required in the current year to address the impact of inflation, particularly on debt interest payments and support policies regarding cost of living. A concession to cut fuel duty by 5p in March 2022 as well as an increase (July 2022) to the National Insurance contribution threshold meant that some of the tax benefit previously captured was handed back to individuals.

Chart 10: Public Sector Net Borrowing



Source: ONS, OBR

2.1.17 Despite low borrowing rates, the debt will have to be serviced by the UK budget and ultimately repaid, forecasts have been uprated by the OBR reflecting higher inflation in the short term and higher interest rates across their forecasts. With spending priorities demonstrated in the 2021 Budget, the Chancellor provides a platform for new expenditure and commitments to be met from increased spending but for those areas of the public sector that are reliant on the grant funding to deliver universal services that are unprotected, such as local government, there will be challenges ahead to keep pace with rising inflation and rising demand. The Chancellor's budget in October 2021 provided the Scottish Government with a multi-year settlement and the implications of that have been incorporated into the Scottish Governments Resource Spending Review and accompanying Medium Term Financial Strategy, published on 31 May 2022. This provides the Scottish public sector with an understanding of the resource priorities for the next four years.

2.2 Other Significant External Risks

2.2.1 *Climate Change* – The OBR in its Economic and Fiscal Outlook, October 2021[13], says that "The fiscal risks presented by climate change include both 'physical risks' stemming from global warming itself, as well as 'transition risks' relating to the shift towards a low-carbon economy. Since our report in July, the physical risks are largely unchanged and subject to the outcome of the COP26 negotiations but will remain highly uncertain and particularly difficult to forecast and quantify even after that." The transition risks become clearer from the 2021 Spending Review, with what they describe as "…significant net zero public investment funded within the 2021 Spending Review envelope. Our fuel duty forecast also reflects faster than expected take-up of electric vehicles reducing revenues. But the largest risks from the transition to net zero remain beyond our forecast horizon. And they continue to be dwarfed by the potentially catastrophic risks that unmitigated climate change would bring."

2.2.2 *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. That came to an end on the 31 December 2020. The nature of the agreement with the EU and subsequent arrangements put in place, as well as trade deals with non-EU countries, are expected to impact over time on a range of areas such as trade, skills, and EU funding.

2.2.3 *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

[13] Office for Budget Responsibility, Economic & Fiscal Outlook, October 2021

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.

2.2.4 *Emergency Response* - Covid-19 was the primary focus of emergency response in 2020, 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 (e.g. 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.

2.2.5 *Corporate Liabilities* – Local authorities are exposed to several liabilities which have significant financial pressures if they occur. For example, the cashflow and cost impact of Developer Obligations not being paid to support required asset enhancement; litigation and claims against the council; and 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 Commentary[14] from the Institute of Fiscal Studies (IFS) on the UK Autumn Budget[15] and Spending Review 2021 (27 October 2021) noted that English local government, despite a real increase in spending power, will still struggle, with limits on Council Tax increases, grants being frozen from 2023/24 and demands keep increasing particularly in the social care sector. Critically it will be the consequentials of the UK Budget, flowing into through the Barnett Formula and the decisions of Scottish Government that will have the greatest impact on Scottish local government sector.

2.3.2 The 2021/22 UK Budget, in March 2021, amounted to £1,053bn. 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 made the impact on public sector spending all too stark. UK revenues for 2021/22 were budgeted to be £820bn, a gap of £233bn which will have to be borrowed.

2.3.3 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.

---

[14] Institute for Fiscal Studies, Commentary on Autumn Budget and Spending Review 2021

[15] UK Government, Autumn Budget and Spending Review 2021

2.3.4 As referenced earlier the significant spending that supported and continues today to support the pandemic response and recovery will not last sustainably. To address the imbalance spending will have to fall and/or taxes will rise. The Chancellors 2021 Budget and Spending Review, delivered on 27 October 2021 emphasised both, with spending supported by increased taxes and commitments to the likes of health and social care from a 1.25% levy on people and businesses being incorporated in the 3-year budget.

2.3.5 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 – then any changes in UK Government funding policy and the size of the UK Tax Revenues will have a material impact on Scottish public services. The 2021 UK Autumn Budget and Spending Review[16] maintained a strong focus on 'Levelling Up' and the desire and mechanisms through which funding can be distributed from UK Government to all parts of the United Kingdom. This agenda has already resulted in opportunities to bid for capital-based funding, and this is described in more detail in Section 4. It is expected that a similar approach to the distribution of the Shared Prosperity Fund will apply, so the Council must be actively tracking the detail on the process to ensure it is in the best place to access the funding when it is released.

2.3.6 From the Block Grant perspective, the Chancellor set out, in his budget, the funding for the devolved administrations, in the context of improved economic outlook, from a quicker than expected recovery in 2021/22, and longer-term impact 'scarring' is expected to have less of a permanent impact.

2.3.7 While the Chancellor resigned in July 2022 there has been no direct impact from a new Chancellor as subsequently the resignation of the Prime Minister has led to a Conservative and Unionist Party leadership battle. It remains uncertain what the change in the Prime Minister, due to be announced in September 2022, and Cabinet changes that will follow will have on the potential scenarios that have been presented in the UK Budget and how this will affect the Scottish Block Grant.

2.3.8

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

[16] UK Government, Autumn Budget and Spending Review 2021

funding accounts for almost a quarter of the total budget, in 2022/23 approximately £12.7 billion[17] (revenue and capital).

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. The Framework is currently under review, with additional flexibility being sought by the Scottish Government. In turn COSLA are seeking to put in place a Fiscal Framework between Scottish Government and Scottish Local Government.

2.4.4 The Scottish Government, having published a single year budget in December 2021 for financial year 2022/23, published a further suite of documents to support a multi-year funding framework for the public sector in Scotland. These documents were:

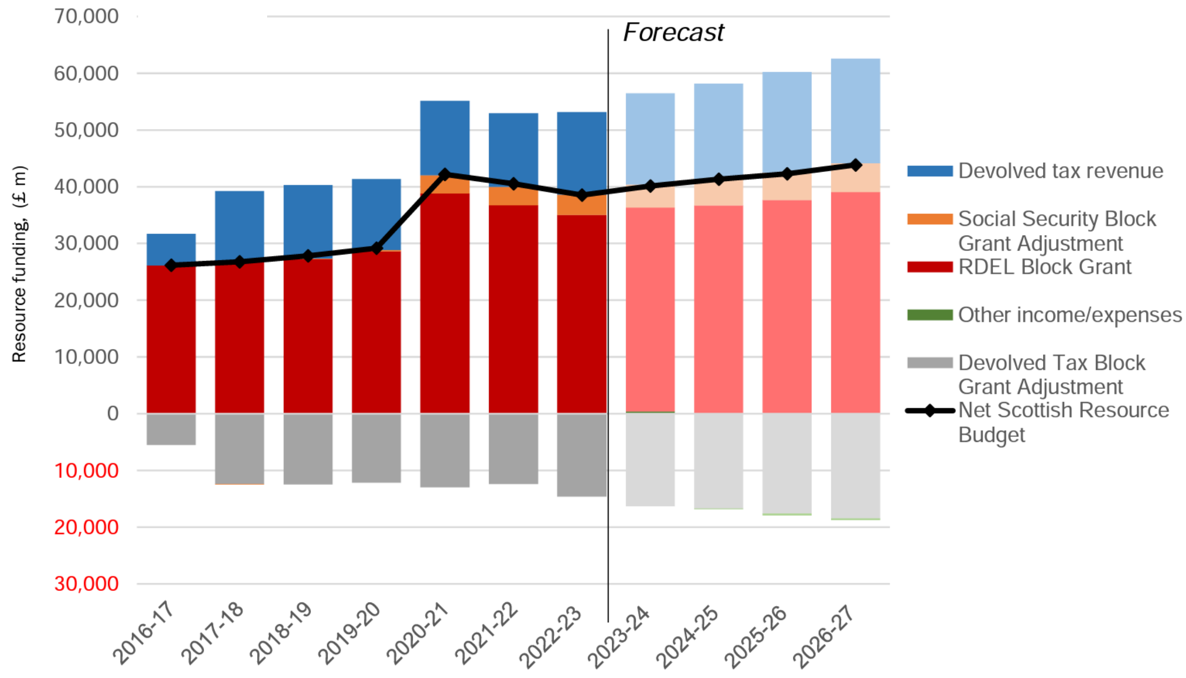
- Investing in Scotland's Future: Resource Spending Review
- Scotland's Fiscal Outlook: The Scottish Government's Medium Term Financial Strategy
- Capital Spending Review

2.4.5 In the Medium Term Financial Strategy the prospects for the funding available to Scottish Government are said to "…grow steadily over the next four years, with slightly higher growth from 2025-26. Relative to 2022-23 levels, the funding envelope grows by 14% by 2026-27. In real terms the growth is only 5% in aggregate over the next 4 years, largely due to the growth in Block Grant not keeping pace with inflation." Stripping out the increases associated with social security benefits then growth "…implies real terms growth of just 2% across the whole four year period."

2.4.6 The Scottish Government forecast the components of the Scottish Budget income, through to 2026/27, to be as shown in the following chart.

[17] Scottish Government, March 2022, Finance Circular 01/2022

Chart 11: Historic and forecast composition of funding envelope (current prices), excluding NDR Income



2.4.7 For financial year 2022/23 Scotland's Budget, excluding Annually Managed Expenditure (AME)[18], amounted to £41.8 billion, when set in March 2022. This is the element of the budget the Scottish Parliament can make decisions about.

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

2.4.9 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. Diverging economic performance could place added pressure on the Scottish Budget in future years.

2.4.10 On 7 July 2022 HMRC published[19] the Income Tax outturn statistics for tax year 2020/21. The Fraser of Allander Institute (FAI)[20] commented that "As a result of the pandemic, Scottish income tax revenues in 2020/21 were much lower than had been forecast. But the operation of the fiscal framework – and the fact that the pandemic

[18] AME is specific grant funding paid by UK Government to cover costs such as NHS and teacher pensions and student loans. It amounts to about £9 billion per annum.

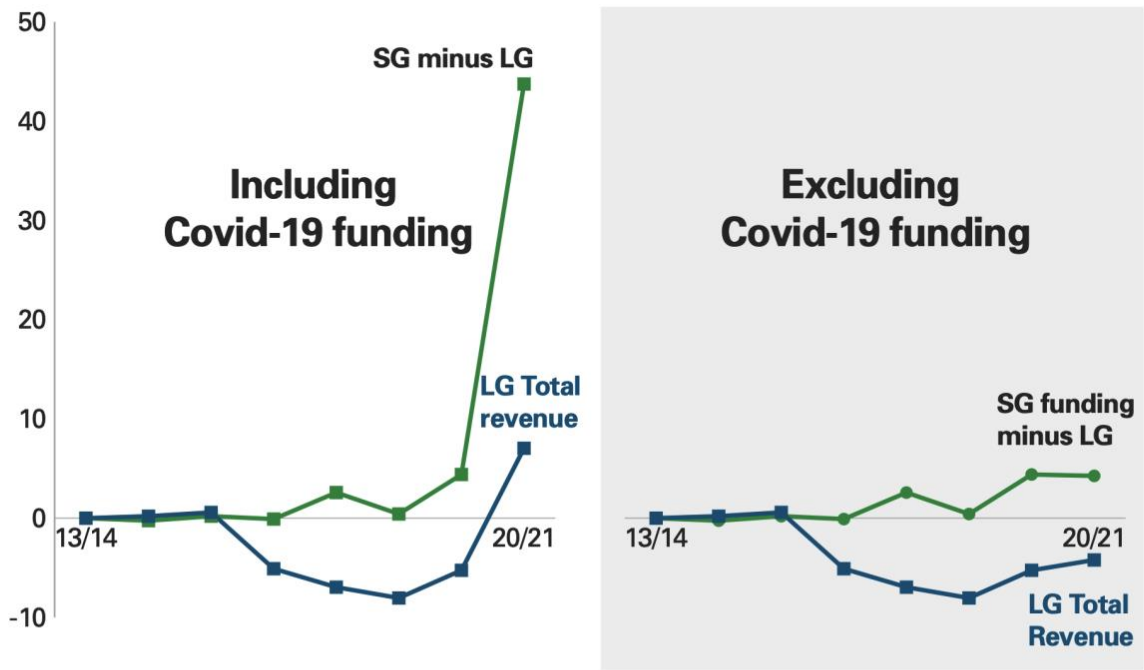
[19] HM Treasury, July 2022, Scottish Income Tax outturn reconciliation for 2020/21

[20] Fraser of Allander Institute, 7 July 2022, Outturn Scottish income tax revenues 2020/21

affected tax revenues in the UK as a whole as much as in Scotland – nullifies any negative impact on the Scottish budget. Moreover, the outturn statistics for 2020/21 are significantly more positive from the Scottish government's perspective than had been anticipated just a few weeks ago. This provides a modest boon for the spending outlook in 2023/24 relative to what had been pencilled in at May's Spending Review."

2.4.11 While this might provide a glimmer of hope for the final settlement in 2023/24 it is impossible to get away from the shortfall in funding that has been provided to Local Government in Scotland for the last decade. The Accounts Commission published its latest Local Government in Scotland Overview report[21] on 25 May 2022, which continued to highlight the long-term position that Local Government is the poor relation of other parts of the Scottish public sector, excluding the effects of Covid-19 pandemic funding "…councils' underlying cumulative funding has fallen by 4.2 per cent in real terms since 2013/14. This is in contrast to an increase of 4.3 per cent in Scottish Government funding of other areas of the budget over the same period." This can be illustrated in the following chart.

Chart 12: Comparison of real terms changes in revenue funding in local government and other Scottish Government areas (including and excluding Covid-19 funding)

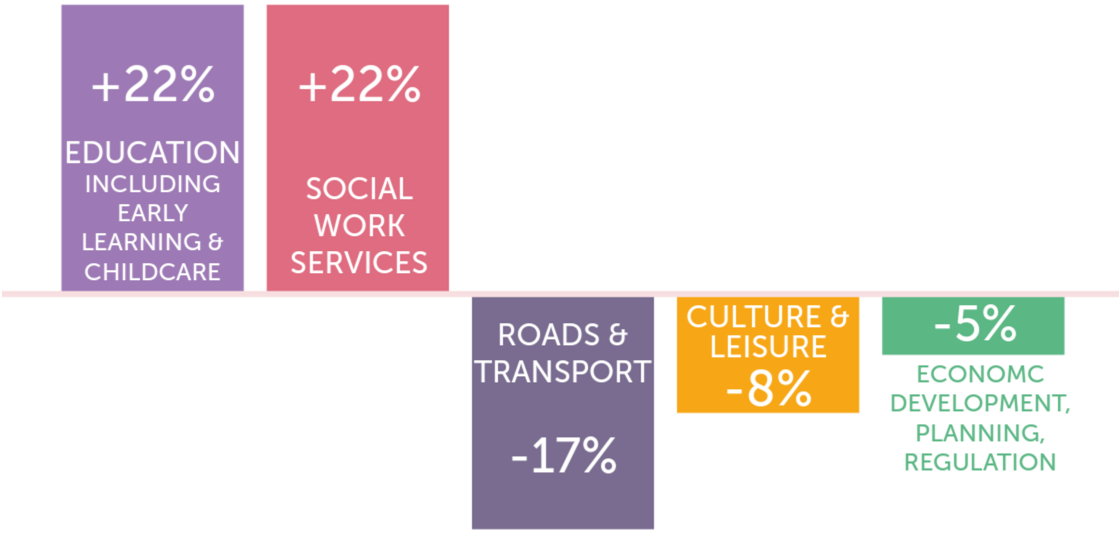


Source: Finance Circular 5/2021 and Scottish Government budget documents

[21] Accounts Commission, May 2022, Local Government in Scotland Overview 2022

2.4.12 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 its "Live Well Locally" budget campaign documentation[22] states that "Over recent years, Local Government's total funding has reduced in real terms – and at the same time, Scottish Government has prioritised & ring-fenced spend in areas like education & social work. So while spend in these areas has gone up, less resource overall means it has been at the expense of areas like economic development, roads & transport, all critical in attracting investment, developing businesses, creating jobs and addressing climate change." Information collected for Scotland shows how stark the disparity is.

Chart 13: Change in net revenue expenditure between 2013/14 and 2021/22 (Estimate)



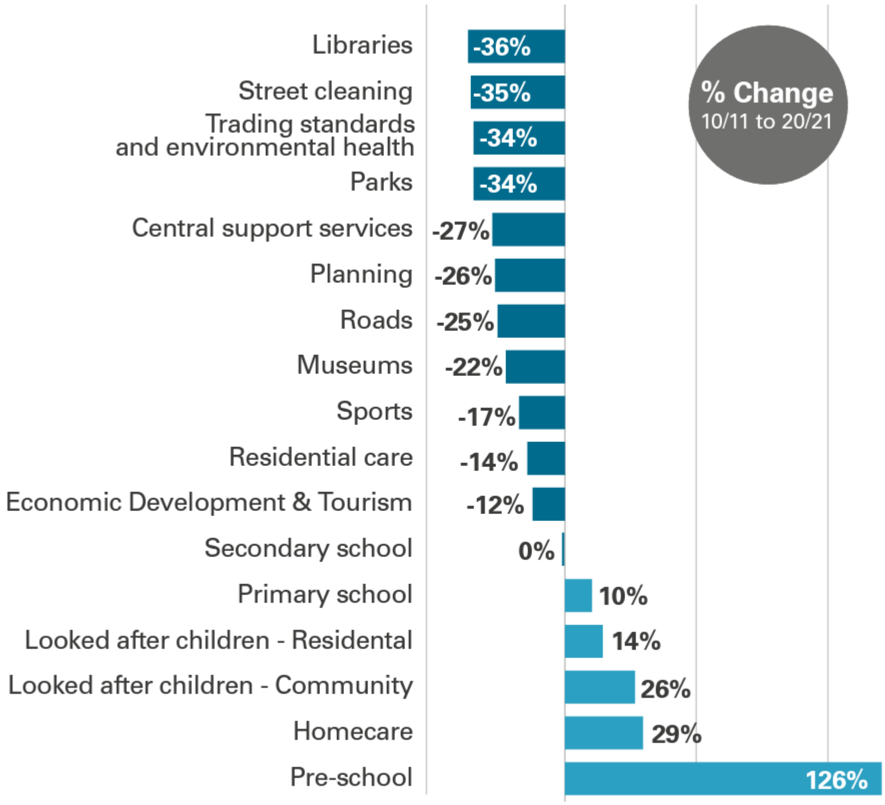
Source: COSLA, Live well locally

2.4.13 The Accounts Commission[23] presented a similar picture in its latest report, reinforcing the extent to which national policy is shaping the allocation of resources at a local level.

[22] COSLA, December 2021, Live well locally campaign

[23] Accounts Commission, May 2022, Local Government in Scotland Overview 2022

Chart 14: Percentage change in expenditure (real terms) by service from 2010/11 to 2020/21



Source: LGBF 2020/21 data, using Audit Scotland Covid-19 adjusted methodology for calculating real terms (page 7, Local government in Scotland: Financial overview 2020/21 for further detail)

2.4.14 With national policy at the forefront, it is impossible to ignore the impact that the National Care Service (NCS) will have on local government. The NCS (Scotland) Bill[24] has been published and allows Scottish Ministers to transfer social care responsibility from local authorities to a new, national service. This could include adult and children's services, as well as areas such as justice social work. Scottish Ministers will also be able to transfer healthcare functions from the NHS to the National Care Service. The Bill is currently at Stage 1 – where Parliamentary Committees examine the Bill and gather views. This will lead to debate and MSPs deciding on the purpose (general principles) of the Bill. Gathering views and responses to the Bill closes on 2 September 2022.

2.4.15 In terms of impact COSLA describes "The inclusion of Children's Services within the Scottish Government's National Care Service Consultation went far beyond the scope of the Independent Review of Adult Social Care, and it was clear in the analysis of the consultation that many respondents agreed with COSLA's view that there was a

[24] Scottish Parliament, 20 June 2022, National Care Service (Scotland) Bill

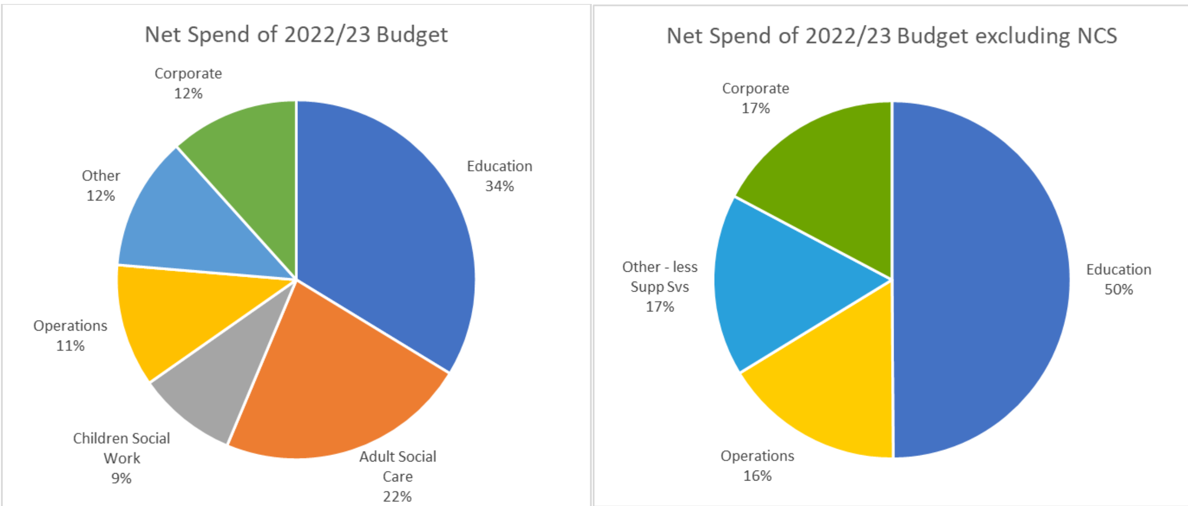
significant lack of evidence and data to justify the inclusion of children's services in a National Care Service."

2.4.16 While there is process and procedure to go through it is necessary that assumptions, from our financial perspective, have to be made about what it means for our financial planning. To do this the Council has examined the accompanying Financial Memorandum[25] and extrapolated this alongside the other demand and cost assumptions that are contained in the MTFS models. Assuming that all of the identified services are removed from local government then the shape of councils will shift dramatically.

2.4.17 The Council currently budgets to spend approximately £168m on Adult, Children and Justice Social Work and associated central support services, from a net budget of £516m, representing one third of net expenditure this year. That spending is expected to rise to £175m for the first year of operation of the NCS, 2025/26.

2.4.18 Removing the spending results in Education being the dominant service provided by the Council, with half of the remaining net expenditure being allocated to deliver education and early years services.

Chart 15: General Fund Budget 2022/23, including and excluding NCS services



2.4.19 The dominance of Education presents a major challenge given the extent of national policy driving prioritisation and national conditions that are in place for these services, whether these be teacher pay and conditions, financial settlement conditions on pupil teacher ratios. It potentially limits the extent to which local decisions can make changes to the way our resources are allocated, perhaps shifting the focus for savings

[25] Scottish Parliament, 20 June 2022, National Care Service (Scotland) Bill FM

and income generation to those that are of a different nature, operational, support and enabling services.

2.4.20 In addition to the obvious revenue budgets that are prepared annually, a National Care Service will have an impact on support services, with the likely untangling of support service budgets, staff and contracts having to be quantified and acted upon once more information is known. Beyond this, there will be questions that need to be answered in relation to assets, debt, contingent liabilities (including pension liabilities and historic child abuse cases) and group entities/subsidiaries (that would relate to Bon Accord Care and Bon Accord Support Services).

2.4.21 With reference to the income the Council receives, it has been assumed that grant funding would be reduced by the value of expenditure being incurred in the delivery of the various services. Local Government will need to be aware of the value of grant that is being removed, as the funding mechanism does not necessary match the spending profile of Councils at present. Local Government should not accept, as a given, that the value of grant funding should be the full cost of current services.

2.4.22 Returning to the Scottish Governments publication of multi-year financial forecasts in the Resources Spending Review (RSR) (see 2.4.4.) there is now much more that the Council can learn about the future shape of local government finance for the coming four years. The first time that local government has had a multi-year financial plan since 2011, when a three year settlement was announced for the period 2012/13 to 2014/15

2.4.23 The RSR was accompanied by a letter to COSLA from the Cabinet Secretary for Finance and the Economy, Kate Forbes. This provided greater insight into the allocation of funds to local government than is detailed in the Resource Spending Review itself.

2.4.24 While setting out the Scottish Governments priorities and describing the need to allocate resources towards achieving those priorities, the RSR demonstrates a further deprioritisation of local government, despite the huge role that Councils can play. The priorities spelt out are:

"…four key challenges – reducing child poverty, addressing the climate crisis, building a strong and resilient economy and helping our public services recover strongly from the pandemic."[26]

[26] Kate Forbes, Cabinet Secretary for Finance and the Economy, Scottish Government, Resource Spending Review, 31 May 2022

2.4.25 For local government the message sounds simple. A commitment to flat cash settlements for the period 2022/23 to 2025/26, with an additional £100m (c.1%) in 2026/27.

2.4.26 The complication comes from the method by which local government receives all of its current funding (i) a core 'Local Government' allocation; and (ii) additional sums transferred from other ministerial portfolios, such as Education, Justice and Health. The RSR confirms that the core allocation of £10.6bn will be maintained throughout the period of the spending review, with that additional £100m in the final year. However the Local Government Financial Settlement for 2022/23 is £12bn therefore there is a shortfall of £1.4bn, in that headline that of 'flat cash', adding in additional risk.

2.4.27 This is where it is important that the letter from the Cabinet Secretary is read carefully as a sum of £1bn per annum is guaranteed to be transferred from those portfolios during the period of review, lifting the total settlement to £11.6bn. Other transfers will be subject to the annual budget setting process for Scotland and will only be confirmed annually.

2.4.28 A new and unhelpful level of risk however one that on balance the Council should take in determining its assumptions around funding for the future. The Central Scenario financial modelling has therefore been revised from grant funding with reductions over the period to flat cash.

2.4.29 While it is important to take from the Scottish Government documents the financial conclusions, it also worth highlighting other points associated with Local Government:

"…key elements of this vision will not directly apply to local government…"
"…a 'new deal' for Local Government in Scotland through the development of a Partnership Agreement and Fiscal Framework."

2.4.30 The Cabinet Secretary wrote, "The 'new deal' will build on the Review of Local Democracy and seek to balance greater flexibility over financial arrangements for local government with increased accountability or the delivery of national priorities so that both partners can have certainty over inputs and outcomes alongside scope to innovate and improve the delivery of services to local people and communities."

2.4.31 **Conclusion: Scottish Government Funding**

I. The allocation of resources by Scottish Government across the Scottish public sector portfolios is somewhat clearer following the publication of the Resource Spending Review. This is the basis for assumptions.

Table 1:

Upside Scenario	**Central Scenario**	**Downside Scenario**

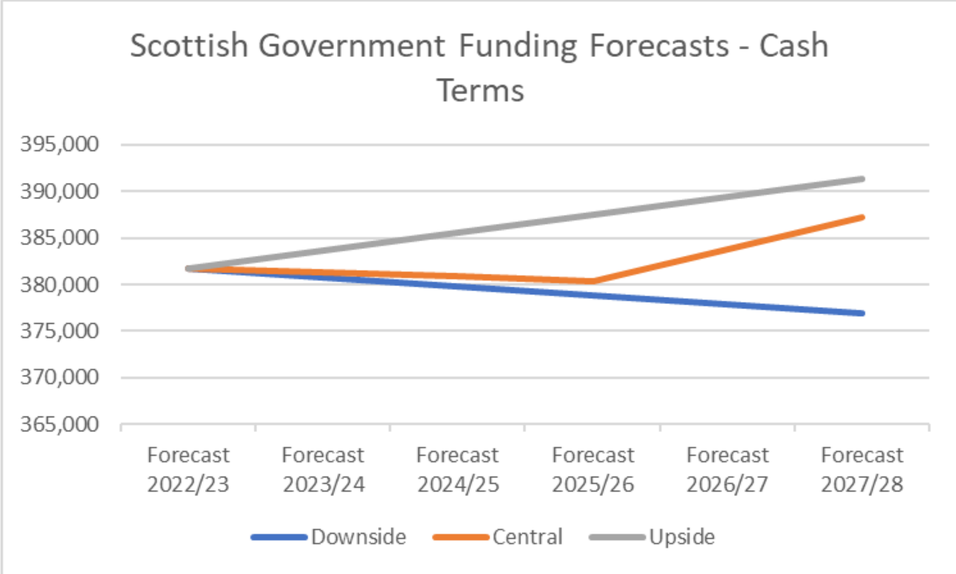
2023/24 to 2027/28 – flat cash settlement for underlying duties and obligations, with a 0.5% cash increase annually to support core services. Assumed that additional funding will be received for additional expenditure commitments. No change incorporated for National Care Service.	2023/24 to 2025/26 – flat cash settlement for underlying duties and obligations. Distribution uncertainty resulting in 0.1% reduction annually. Assumed that additional funding will be received for additional expenditure commitments through policy changes. 2026/27 and 2027/28 1% cash increase annually. No change incorporated for National Care Service.	2023/24 to 2027/28 – flat cash with additional impact of distribution formula leading to lower grant, estimated at 0.25% annually. Assumed that additional funding will be received for additional expenditure commitments through policy changes.

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

Table 2

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.

Chart 16: Scottish Government Grant Scenarios



III. From an approved 2022/23 budget level of government funding of £382m, the downside and central position track similar funding levels during the first 3 years of the RSR, the central scenario more optimistic that the 1% increase in funding in 2026/27 will be distributed and will be maintained into the following year. The upside is also tighter than previous MTFS forecasts as the room for additional grant funding has reduced with the publication of the RSR. By year 5, 2027/28 there is a funding range, upside to downside of £14m.

2.4.32 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. Primarily 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.

2.4.33 Exercising discretion over these fiscal levers is, again, not straightforward. The local government financial settlement has, for over a decade put restrictions on the most significant fiscal lever local authorities have, setting the Council Tax. A 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. For 2021/22 the council again was offered funding to avoid an increase in Council Tax. For Aberdeen City this was the equivalent of a 3.3% increase in the rate. The Council accepted this offer (as all local authorities did).

2.4.34 In 2022/23 the cap was removed and for the first time since 2007/08 the Council was free to set a Council Tax rate for Aberdeen. An increase of 3% was approved, in the context of the concerns around the cost of living and affordability locally.

2.4.35 Limiting the value and / or missing the opportunity to increase Council Tax undermines the future value of this funding stream for the council. The underlying assumption is that Council Tax income will have to be increased.

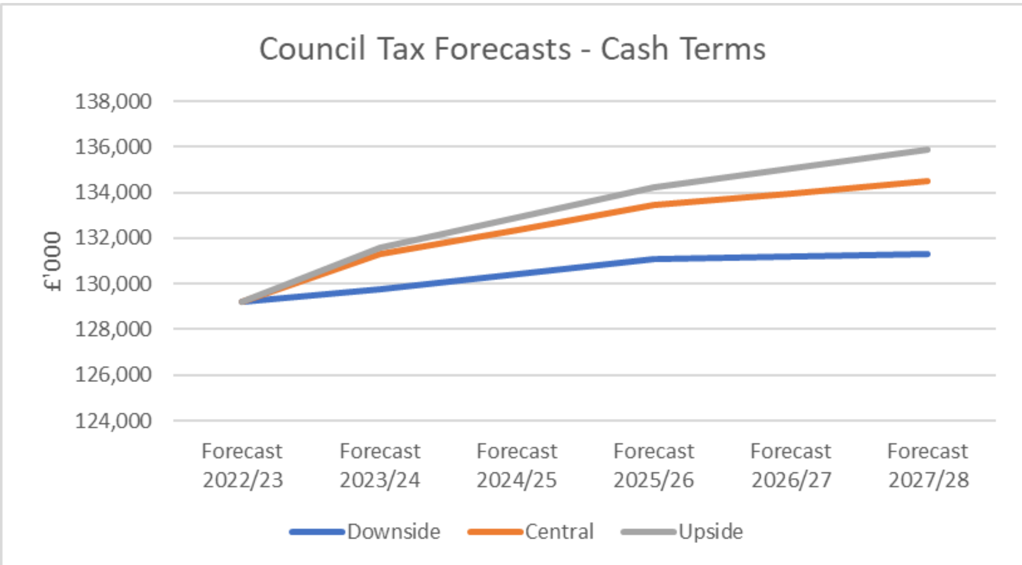
2.4.36 It is worthy of note that the Scottish Government's Programme for Government[27], published earlier this year commits "...to reforming Council Tax to make it fairer, working with the Scottish Green Party and COSLA to oversee the development of effective deliberative engagement on sources of local government funding, including Council Tax, that will culminate in a Citizens' Assembly." The Council will want to participate to ensure that developments are appropriate financially for the Council and locally for our citizens.

2.4.37 Conclusion: Council Tax

I. The Council Tax valuation roll is anticipated to increase with additional housing continuing to be built in the city. For this reason the underlying value of Council Tax collectable before increasing the Band D rate tracks an upward trend. The upside and downside scenarios reflect greater or fewer houses being added to the roll annually.

II. The chart below does not include the impact of a rate increase; however the recommendation is that the real terms increase in Council Tax should be approved annually to enable the Council to in part recover the increasing cost of services, through pay, price and contract inflation.

Chart 17: Council Tax Scenarios



2.4.38 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

[27] Scottish Government, Programme for Government, 7 September 2021

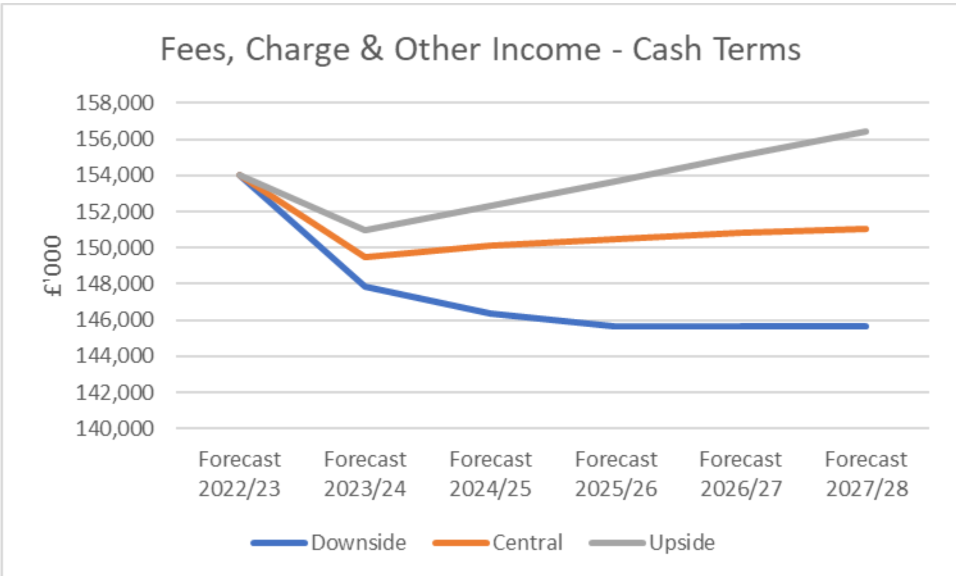
common example being car parking income. Other external income raised through fees and charges will often recover a proportion of the cost of delivering a specific service, lowering the overall cost to the General Fund revenue budget. Securing an income from a strong customer base, with repeat use can help to avoid public subsidy for discretionary services.

2.4.39 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.

2.4.40 This year initial forecasts for income from fees and charges is far from certain and continues to be affected by behaviour changes from customers, citizens and visitors, as well as economic conditions. While this will be captured in the current year through the quarterly financial performance reports, looking ahead it is clear that careful consideration of the opportunities and gaps that exist in our income base need to be considered. The forecasts for now are prudent.

Conclusion: Fees and Charges

Chart 18: Fees and Charges Scenarios



2.4.41 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.

2.4.42 While there is a mixed picture of legislation already in place to support these levies, 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.

2.4.43 The Programme for Government committed the Scottish Government to devolving the Empty Property Relief in connection with Non-Domestic Rates. The intention is to level the playing field for all non-domestic properties, the Scottish Government will help local authorities tackle a known avoidance tactic on empty non-domestic properties. This will deliver greater fiscal empowerment for councils in advance of the devolution of empty property relief and is due to come into effect from April 2023.

2.4.44 **Conclusion: Discretionary Powers**

I. Table 3: 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 has only got more difficult as inflation has increased to levels not seen for forty years. 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 4: 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 0.5% Year 2-5 0.5%	Year 1 -0.1% Year 2-3 -0.1% Year 4-5 1.0%	Year 1 -0.2% Year 2-5 -0.2%
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, The budget decision will provide a solution to address the scenarios. It is expected that Council Tax income will be increased in 2023/24 to reflect a real terms increase, historically this has been c.3.3%. Consideration should be given revising the ceiling on Council Tax due to the rising cost of services and inflation in pay and prices that cannot be absorbed by the Council indefinitely.			
Council Tax	Tax base increase from additional chargeable properties.	Year 1-5 total 4,250 properties	Year 1-5 total 3,845 properties	Year 1-5 total 3,000 properties
Fees, Charges and Other Income	External income raised from customers. Approval for rate increases is a council decision, therefore rates charged in 2022/23 have continued to be applied to each scenario. The budget decision will provide a solution to address the scenarios. Similar to Council Tax, careful consideration of the full cost recovery, the impact that inflation is having on the cost of delivering chargeable services must be taken into account when setting annual charges across the MTFS period.			
Fees, Charges and Other Income	External income changes due to Covid-19 impact	Year 1 £0.5m loss & return to current by year 2	Year 1 £1.5 loss & return to current by year 3	Year 1 £2.5 loss & return to current by year 5

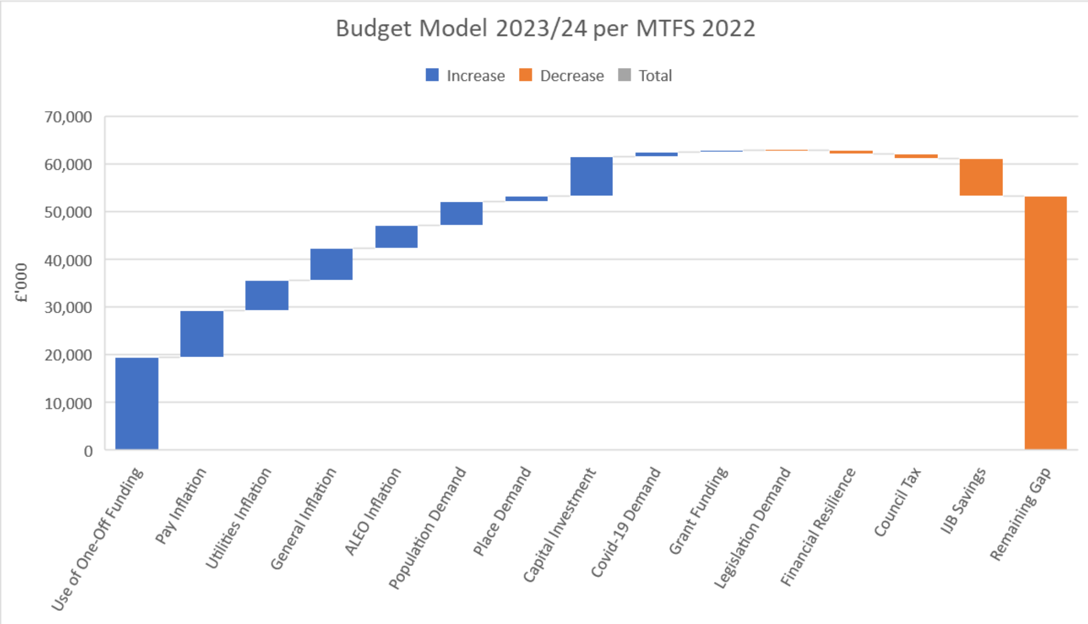
One-off funding streams	2022/23 Budget made use of Balance Sheet resources and one-off funding streams these must be replaced as they are non-recurring. Assumption for 2023/24 only, £19.4m.

Table 5: Expenditure (percentages are shown in cash terms)

Source	**Description**	**Upside Scenario**	**Central Scenario**	**Downside Scenario**
Inflation	Pay	Year 1-5 2% Pay award funded by SG grant if greater than assumptions	Year 1-3 3%; Year 4-5 2% Pay award funded by SG grant if greater than assumptions	Year 1-4 3.5%; Year 5 2.5% Pay award funded by SG grant if greater than assumptions
Government Policy	National Insurance	Year 1-5 0% No further increases beyond 2022/23	Year 1-5 0% No further increases beyond 2022/23	Year 1-5 0% No further increases beyond 2022/23
Inflation	Price – including contracts, grants and ALEOs	Between 0% and 2.5% p.a.	Between 0.25% and 6% p.a.	Between 2.25% and 9% p.a.
Inflation	Utilities, including Gas, Electric, Heating Oil, Water	Gas 0% Electricity 2.5%	Gas 146% Electricity 5.7%	Gas 292% Electricity 9%
Population Demand	Children, schools impact	Total Year 1-5 £5m increase		
Capital Investment Demand	Capital Financing **Note:** Year 1 is affected by the one-off deferral of debt which makes the 2022/23 base £7.5m lower than would otherwise be the case.	Year 1 12% (3%) Year 2 6% Year 3-5 -2%	Year 1 19% (10%) Year 2-3 4% Year 4 1% Year 5 -1%	Year 1 25% (16%) Year 2 10% Year 3-5 4%

3.1.3 The forecast position, central scenario, can be represented by the graph in Chart 16.

Chart 19: ACC General Fund 2022/23



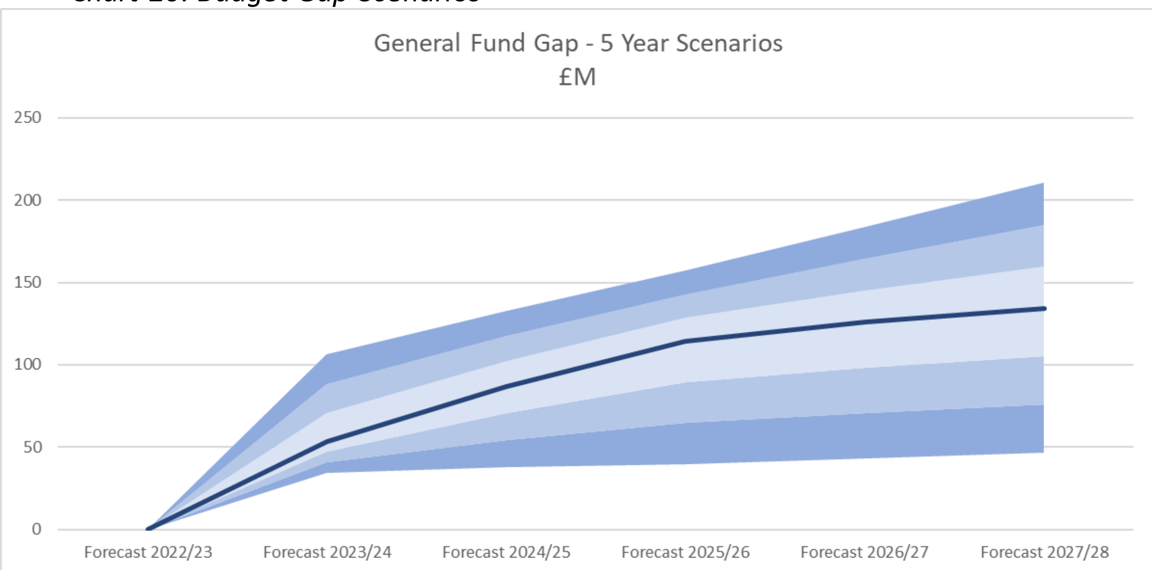
3.1.4 The impact of income and expenditure assumptions is shown in the table below

Table 6: Budget Gap Scenarios

General Fund Budget Gap	Budget 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	34	38	40	43	47
Central Scenario	0	53	87	114	126	134
Downside Scenario	0	106	132	157	184	211

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

Chart 20: Budget Gap Scenarios



3.1.6 The scenario plans reveal a range for 2023/24 of between £34m and £106m, with a central scenario that is towards the upside set of assumptions, based on similar funding scenarios now much clearer following the publication of the Scottish Government Resource Spending Review, it leaves less opportunity to assume that additional income will be provided by Scottish Government to support core services.

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 Chancellor set out in his 2021 Autumn Budget and Spending Review a budget is multi-year, as referenced earlier, and this included the capital funding commitments that provides the information the public sector requires to plan for capital investment. The three-year budget figures were linked to the Levelling Up agenda, so that for many areas of the UK there was relevant and specific reference to funding commitments being made.

4.1.3 This included Scotland, where outside the Scottish Block funding announced there was also £170m of capital investment made directly by the UK Government into Scotland, through Scottish Local Authorities. This link between UK Government and Scottish Local Government provides an opportunity to tap into additional funding, not currently available. For the Council this has resulted in the announcement by the Chancellor of the full £20m from the Levelling Up Fund, for the Aberdeen Market project.

4.1.4 It is particularly important that as the Levelling Up Fund is not a single source of funding, but a Fund that will seek bids in the future, the Council remains agile and aware of the opportunities that exist in accessing the valuable funding stream. A further application was submitted to the second round of bids for £20m in support of projects included in the Beach Masterplan.

4.1.5 Other Funds many also emerge with the expectation that the UK Shared Prosperity Fund will operate in a similar way, specifically allocating and distributing funding outside the Scottish block grant directly to projects in Scotland and other devolved nations. The detail of the quantum and process for applying for this funding has yet to be announced.

4.1.6 The Scottish Government published its Infrastructure Investment Plan for Scotland 2021/22 to 2025/26[28] on 4 February 2021. The Scottish Government described the purpose of this as "Our Infrastructure Investment Plan covers 2021-22 to 2025-26 and delivers our National Infrastructure Mission commitment to boost economic growth by increasing annual investment in infrastructure by 1% of 2017 Scottish GDP by 2025-26."

[28] Scottish Government, Infrastructure Investment Plan 21/22-25/26, February 2021

4.1.7 Investment in infrastructure can provide stimulus and economic growth, evidenced through increases in GDP, therefore having this national picture is important to understand financial commitments, resource allocation decisions and to provide context for local decisions being made. Following the 2021 Scottish Parliamentary elections the Scottish Government published its Programme for Government[29] where capital investment continues to be expanded but noted that prioritisation of health and social care continues to dominate with a commitment, for example, to "Capital investment of £10 billion over the next decade will see health facilities built and refurbished across Scotland."

4.1.8 In May 2022 the Scottish Government published, alongside the Resource Spending Review, a Targeted Review[30] of the Capital Spending Review. This highlighted that three things had changed in the period since February 2021:

- Scotland received a lower than expected capital settlement from the UK Government's Autumn 2021 Spending Review – reducing the funding envelope by over £750 million;
- the establishment of the new Scottish Government in 2021 with an increased commitment to tackle global climate and nature emergencies, reinforced by COP 26; and
- Scotland faces the additional impacts of high inflation, supply chain pressures and business disruption due to a combination of the impact of the UK's exit from the European Union, the pandemic and the crisis in Ukraine.

4.1.9 The reliance on the UK Government for capital grant allocations, with limited capital borrowing powers, means the Scottish Government has concluded that it is not possible to immediately fund all the commitments from the existing spending review and those set out in the Programme for Government. That said, using the levers that are available the review documents that £1.9bn of capital investment funding will continue to be allocated to Local Government. The profile of this will mean less in year 1 (2023/24) and more by year 3 (2025/26), approximately £0.65bn per annum.

4.1.10 This means there is no more funding for the Council to invest and all of the additional cost associated with investment will have to be met by partners or by the Council borrowing more. The alternative is to reprioritise or reprofile the Capital Programme, as has been reported to the City Growth and Resources Committee[31], where the outcome of that exercise was included in the Financial Performance, Quarter 1 results.

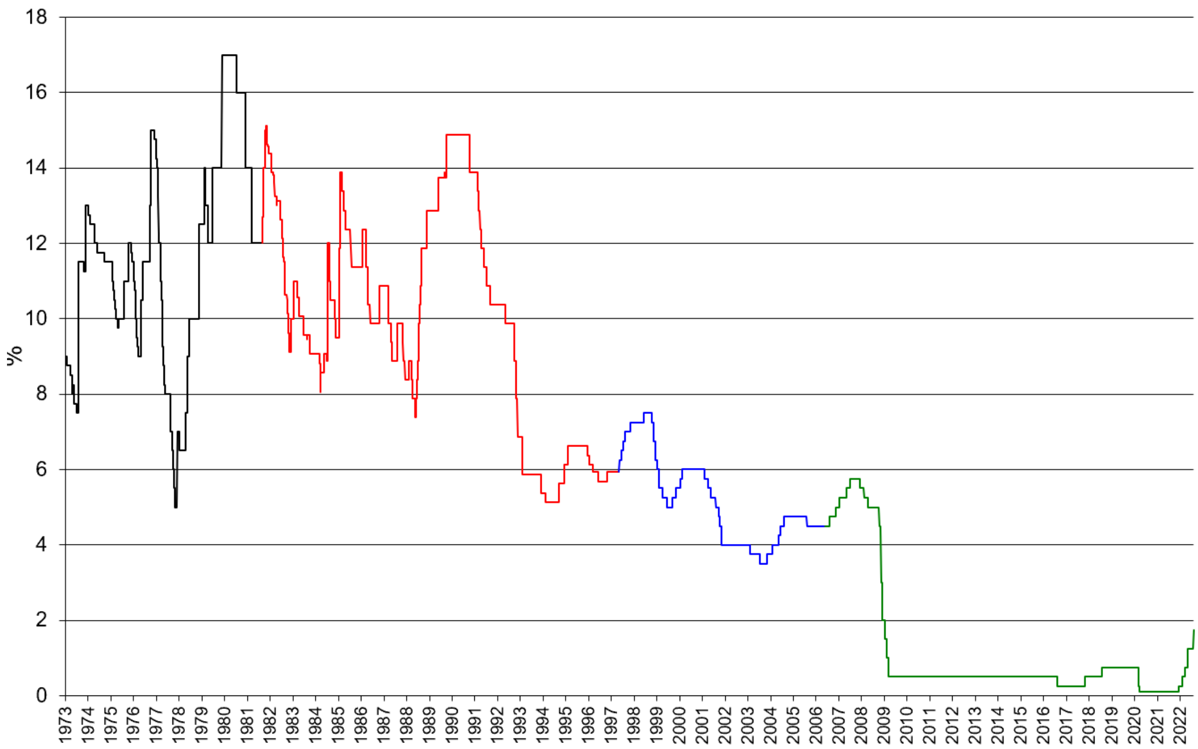
[29] Scottish Government, Programme for Government, 7 September 2021

[30] Scottish Government, May 2022, Targeted Review of Capital Spending Review 2023/24-2025/26

[31] City Growth and Resources Committee, 3 August 2022, Council Financial Performance – Quarter 1 2022/23, Appendix 5

4.1.11 The final bullet point is one that has been clearly evident locally, with the City Growth and Resources Committee having a report spell out implications for costs and project delivery. That report presents a highly challenging capital investment environment, with costs of projects and timescales for projects rising higher and faster than has been seen for many years. The impact of actions taken to control inflation by the Bank of England, by increasing the cost of borrowing, means that there are multiple layers of financial effect. In historic terms the cost of borrowing does remain very low, despite the interest rate increases in 2022 to date, see chart below.

Chart 21: Bank of England base rate/minimum lending rate since 1973



Source: Bank of England

4.1.12 Projects costing more, requiring additional funding to support delivery and borrowing costing more than it did, it adds up to a reason to review the purpose, progress and value of the capital programme. This has been done[32] and the reprofiled capital programme has been referred to the Council meeting on 24 August 2022 to decide.

4.1.13 The eyes of the world were on Scotland when COP26[33] took place in Glasgow last year. Clear commentary from both UK and Scottish Governments demonstrates both funding being available, and investment required within the "Green Economy". The Scottish Governments Infrastructure Investment Plan has as its first Theme: Enabling

---

[32] City Growth and Resources Committee, 3 August 2022, Council Financial Performance – Quarter 1 2022/23, Appendix 5

[33] https://ukcop26.org/

the transition to net zero emissions and environmental sustainability. It describes why this is important "Public infrastructure investment has a critical role to play in tackling the twin crises of climate change and biodiversity loss. We will increase spending on low carbon measures, climate resilience, and nature-based solutions." The targeted review maintains that emphasis, with Climate change being included as an enduring priority.

4.1.14 With Council ambition laid out in the Net Zero Vision, the Council must seek to harness this over the medium term and is well placed to capitalise on its position within the energy market. In February 2022 the Council approved[34] the city-wide approach to addressing climate change, as articulated through a *Net Zero Routemap* which sets a net zero target for Aberdeen City by 2045 across six themes and the refreshed *Aberdeen Adapts*, providing a climate adaptation framework for Aberdeen

4.1.15 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.

4.1.16 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.

4.1.17 This is coupled with the already approved Strategic Investment Plan[35] 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.

4.1.18 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. The Capital Programme approved in March 2022, took forward several initiatives, including investment in electric and hydrogen vehicles, charging infrastructure and hydrogen hub.

4.1.19 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-19 urbanisation was seen as the future in a post Covid-19 world this becomes blurred as human behaviour may well have changed forever.

4.1.20 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

[34] Council, 28 February 2022, Climate Change: Citywide strategy and Council carbon budget [COM/22/054]

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

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.

4.1.21 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.

4.1.22 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).

4.1.23 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".

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

4.1.25 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

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

4.1.27 The current Capital Programme for the General Fund was approved in March 2022 with investment of £645m in city projects over the five years to 2026/27. Details of the programme are shown in Appendix 2 and include the additional £150m over the five years to ensure the Council transforms the City Centre and the Beach area. As referred to above, the programme has been reviewed and recommended reprofiling presented to the City Growth and Resources Committee. This report has been referred to Council and decisions on the reprofiling exercise will be taken at the Council meeting on 24 August 2022.

4.1.28 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 2022/23 - 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 The budget in 2022/23 has relied on one-off funding steams to support the continuation of Council services. This has been a mixture of funding available from earmarked reserves, the use of fiscal flexibilities and other opportunistic income streams. In total this amounts to approximately £19m. The consequence of this is that the funding will have to be found again in 2023/24 and pushes the budget gap in future years up.

5.3 It is therefore essential that the Council balances its budget in-year and does not add further unplanned expenditure into the financial modelling and MTFS. The monitoring of the current year is being carried out in line with the Council's quarterly financial reporting and while cost pressures arising from the legacy of the pandemic and the potentially more significant inflation and supply chain issues are creating a significant financial challenge in 2022/23 the Council's financial resilience and specific savings on the pay bill and on the cost of capital financing costs are, together, forecast to be sufficient to balance the budget this year.

5.4 This does assume that pay negotiations do not additional cost to the Council and that any additional monies required to reach an agreement are fully funded by the Scottish Government. As recently as 5 August 2022, an additional £140m has been allocated by the Scottish Government to move this forward.

5.5 2023/24 and beyond - 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

5.6 As described above the financial impact of this is captured in the financial models that support this MTFS.

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

- 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

5.8 Delivering a balanced budget across the Medium Term Financial Strategy must be tackled thought a range of different approaches, using all of the opportunities that the Council has at its disposal where and when they are available. The tools that Aberdeen City has and has put in place to do this include:

- The Target Operating Model
- Multi Agency Transformation
- Efficiency Savings
- Changing Service Standards
- Exercising discretion to increase income
- Reserves and Fiscal Flexibilities

5.9 <u>Future Transformation Priorities</u> From 2017 Phase 1 of the Councils transformation shifted the organisation to a new way through the Target Operating Model (TOM). 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. With the implementation of the TOM and delivery of the digital strategy, along with the delivery of required savings and a balanced budget over the five years (2018/19 to 2022/23), the Council now looks to the next chapter of our transformation journey and the next phase of our Target Operating Model – TOM 1.2[36].

5.10 While transformation is not only about delivering the necessary savings; there is an even more crucial need for organisational culture to be strategically oriented towards the towards the capabilities envisaged by the Council's Operating Model, e.g., preventing customer demand, anticipating demand, supporting customers to manage their demand, and in the event, responding to the demand ensuring that staff are working with a focus on outcomes. A very deliberate attempt has been made, and will continue to be made, towards influencing the culture of the organisation as well as ensuring that all staff have the right skills and working environment practices to operate within a changing environment.

5.11 Building on our achievements, TOM 1.2 will focus on further embedding the design principles and capabilities, supporting deeper and broader service redesign, with digital as an enabler. Crucially it will enable the organisation to deliver savings required for the next 5 years from 2023/24 to 2027/28 as set out in this Medium-Term Financial Strategy (MTFS).

5.12 The objectives of TOM 1.2 are:

1. Support the Council to address the 5-year funding gap of £134m as outlined in the MTFS.
2. Continue to exploit digital technologies within the Council's Digital Transformation agenda to enable services to adopt technology for various activities and processes, thus enabling the Council to fully leverage technologies to accelerate their processes.
3. Develop an organisational workforce that is flexible ensuring all staff have the necessary skills to work effectively within the Council's operating model.

5.13 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

[36] Council, 24 August 2022, Council Target Operation Model (TOM) 1.2

assets; early intervention and prevention through the management of demand; and the design of specific services, with a particular focus on children' services.

5.14 Looking forward and within the context described by this medium-term financial strategy, the Transformation Portfolio has been reviewed during 2022 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, 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.

5.15 Linked Strategies - The Strategic Commissioning Committee agreed in November 2019 a revised Strategy Framework[37] which reframed the formal strategies of the Council to ensure their full alignment to the Local Outcome Improvement Plan and their consistency with each other. Through the adoption of the commissioning cycle, the

[37] Strategy Framework, SCC, November 2019

council's strategies have a fundamental role in the strategic allocation of resources. This Strategy 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.

5.16 Efficiencies - These have been a necessity of local government financial settlements, that the sector does more with less year on year, and this has been essential given the real terms cut in funding that local government has received over the last decade, referenced earlier in the document.

5.17 Experience shows that managers year on year are able to deliver savings as part of business as usual, based on decisions to not purchase the save volumes of goods and services, to change the product or commodity that is purchased, to negotiate and tender for better prices, to identify if work can be done in a different way that improves productivity or removes inefficiency of historic work or procedural processes.

5.18 These do not have to be described as transformation or be a fundamental redesign, these can be achieved through behaviour, through capability and through access to advice and guidance on options. All this points in the direction of the principles of the TOM but results in savings that can be captured because the Council does thing more cost effectively.

5.19 Part of the solution to the MTFS budget gap is to year on year secure savings from business as usual, to capture a significant efficiency improvement that results in a lower cost base for the in-year and future service delivery.

5.20 Raising income – As described earlier the most significant fiscal lever at present is the Council Tax and the ability now for Councils to adjust this unconditionally means that it is an important tool to address rising costs on a recurring basis so that financial sustainability is also address, in part at least.

5.21 A key principle of the MTFS is to exercise the discretion it has over local taxation and increase the Band D charge for Council Tax annually to support future budgets. In the current climate the strategic position to take is to plan for real terms increase in the rate that Council Tax is charged so that the value keeps up with the rising costs that have to be funded. To address a significant budget gap in the future this provides an excellent means of doing so.

5.22 Other fees and charges, both internal and external, are valuable sources of funding. The description earlier in the document forecasts the change in the underlying value of the customer base and use of services that are charged, the MTFS does not present the options or assume the value of additional income that can be generated as this is subject to the discretion of the Council. The principle is clear, that the Council must 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 the income that is rightfully owed.

5.23 Further insight into the core income streams that the Council relies upon is included in the Financial Resilience Framework, described in Section 6.

5.24 Overall financial sustainability is improved where there is income being received to cover costs and that the income is recurring. With the ability to exercise discretion over only on a number of the lower value funding streams from fees and charges (i.e. excluding Council Tax) the Council should do what it can to secure additional revenue annually in support of the budgets.

5.25 <u>Reserves and Fiscal Flexibility</u> - The opportunity to use reserves, while a legitimate funding source it must always been seen and dealt with as one-off in nature. The Council position on Reserves is included in Section 6.

5.26 The emergence of fiscal flexibilities over the last two years, brought on or progressed at pace because of the impact of the pandemic, has provided local government with opportunity to take one-off savings or income streams to assist in managing the financial position. The Council has taken advantage of these in recent years, using capital receipts to support the voluntary severance and early retirement of staff rather than charge that to revenue budgets and in the current year defer the repayment of debt principal (or more accurately, not have to account for the repayment thereby meeting legal obligations to repay debt as it falls due while achieving a saving).

5.27 As stated above (1.23) these are legitimate and appropriate sources of income or achieving savings provided they are treated properly and responsibly. This includes consideration of the benefits that are achieved from a one-off source of funding – it is recommended that a return is received in the form of financial (and non-financial) benefits from what can be classified as investment, spend to save being a well-used term to describe it. Transformation for example might require a level of investment to make the change take effect and an example where the Council has undertaken this has been using a Transformation Fund, where money is committed and drawn down to support technology or skills investment that once purchased delivers a saving or new income stream.

5.28 Where a one-off solution is filling a budget gap, enabling services to continue as currently delivered for example then due consideration of the implications must be taken, identifying where and when they are being used and adjusting future financial planning to reflect the decisions taken.

5.29 <u>Conclusion</u> – The challenge set out in the MTFS is significant and the Council will have difficult decisions to make to balance the budget gap over the 5 years, particularly in light of the unprecedented and extremely volatile market conditions in which we operate and a Resource Spending Review from the Scottish Government that provides no additional funding to meet the rising cost of services over the medium term.

5.30 The solutions come from a mixture of actions. The work that was started 5 years ago through the Target Operating Model enters a new five-year period with the ambition to contribute towards the budget gap, referencing the central scenario outlined in this. The Council needs the Transformation programmes outlined in TOM 1.2 to deliver the savings required in the timeframe.

5.31 Multi-agency work, through our engagement and working together with partner organisations also provide the opportunities to use resources more effectively across organisations, savings must be delivered from these programmes of work too.

5.32 Efficiencies will play an enduring part of managing the budget position and to drive out where efforts can be taken to be more cost effective, productive and efficient in what the Council does, this is across the Council not just a select few.

5.33 On a regular and consistent basis the use of the discretion that the Council has to increase income to support the cost base it has should be taken, whether fees and charges, new discretionary powers or Council Tax. Securing income is a fundamental part of making the Council sustainable over the medium to long term.

5.34 Finally there is the option to consider how one-off funding streams (that may be available) are applied to the financial position, and care will need to ensure that these finite resources are used to the medium and long term benefit of the Council's financial position, preference being for receiving a clear financial return from investment of one-off funding.

5.35 Through a combination of all these mechanisms the Council aims to find the solutions that balance the financial challenges over the next five years.

6. RESERVES AND FINANCIAL RESILIENCE FRAMEWORK

Useable Reserves

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;
- ✓ 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).

6.4 The likelihood of these risks arising is predicted to continue to increase.

Reserves Policy[38]

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.

[38] Council Reserves Policy, March 2022, Report number 5.1, Appendix 6

- 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 Draft Annual Accounts for 2021/22 show the balance of General Fund usable reserves of £72m (including earmarked reserves of £60m).

6.8 In setting the 2022/23 General Fund budget the Council determined that it would use £5.5m of earmarked reserves from the general sums held to support the recovery from the pandemic. An explanation of each earmarked reserve and values as at 31 March 2022 can be found in the council's draft annual accounts for 2021/22.

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 Framework

6.13. **Introduction**

6.14 For Local Authorities generally, the measure of financial resilience has been to consider rely on in-year contingencies and its Reserves Policy.

6.15 The Council acknowledged, in the reports to the Urgent Business Committee and City Growth and Resources Committee in 2020, that financial resilience was a crucial aspect of financial management that became more important in times of crises, such as a global pandemic.

6.16 It was recognised that financial resilience was more than about its reserves and there was a need to be more comprehensive in the assessment of the measures of resilience. In the Medium Term Financial Strategy 2020, approved on 28 October 2020 it was agreed that the Council's approach to financial resilience was to be developed further.

6.17 While the Covid-19 pandemic brought a specific focus to the subject, it was not the sole reason for further work. The ongoing national debate on the financial sustainability of the local government sector in Scotland, the increasing number of local authorities in England in recent years that have found themselves in financial difficulty, resulting in Chief Financial Officers having to prepare formal s114 notices.[39]

6.18 There has been greater emphasis from external auditors on the assurance and demonstration of the concept of 'going concern' for local authorities and this being a key area of audit activity now.

6.19 All of this adds up to the need for greater attention to be paid to the financial resilience of the Council and to consider what financial resilience is, how it is defined and measured and what it leads us to do.

6.20 The development of a financial resilience framework to shape the Council's understanding of key aspects of financial strength is the starting point and to define the areas that are most appropriate to consider. Further work will be done to develop this further, to look at the comparators and where this applies, and to consider in more detail the exposure the Council has from its Group entities.

6.21 The framework set out here continues to be the early stages of addressing the instruction to the Chief Officer – Finance from the City Growth and Resources Committee to further develop the approach to financial resilience.

[39] Section 114 notices are the mechanism through which English local authorities report that they are unlikely to achieve a balanced budget for the financial year.

6.22 **Background**

6.23 The Council has always reviewed and paid attention to its usable reserves, those that it can draw on in a time of need. To this effect the Council has in place its Reserves Policy, which it reviews annually as part of the budget setting process. This is done in the context of assessing 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.

6.24 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.

6.25 Therefore, reserves are mainly available to;

- ✓ Manage the impact of cuts over a longer period;
- ✓ Invest in schemes that allow services to be delivered at lower cost;
- ✓ 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 a pandemic or financial crisis).

6.26 The Council looks at financial resilience as a much wider subject as it is about our ability to anticipate, prepare for and respond to the changing financial environment, derived from internal decisions and external factors. To be financial resilient, is to know what would be available in the time of crisis, is to understand the exposure to loss of income, and commitment to expenditure, as well as understanding the flexibility the Council has in terms of accessing funds when they are needed.

6.27 In this strategy financial resilience has been broken into the following four 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

6.28 Maintaining a strong balance sheet provides the assurance that the Council can 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. Notably the Local Government Benchmarking Framework (LGBF), in the analysis of 2019/20 it started to incorporate financial sustainability information which is of a similar nature. This provides a Scotland wide comparison of some of the key elements that are included in the Council Framework.

6.29 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.

6.30 Bringing all of this together to provide the information to the Council in a form that it can take account of in its decision making is an important next step. To inform that, further consideration has been given to the LGBF financial sustainability measures, CIPFA Resilience Index that has been prepared with English Local Authorities, Moody's credit rating assessment reports and careful thought about what is important to the resilience of the Council the areas will be refined to be more specific.

6.31 **<u>Framework</u>**

6.32 The framework has the following components:

- Council reserves and liquidity *(the availability of resources)*;
    - Reserves
    - Net Worth
    - Liquidity

  - In this section further work is anticipated regarding the Council exposure to its Group

- Capital financing; investment, and borrowing *(the creation of resources and gearing)*;
  - Capital Finance Requirement
  - Debt
  - Prudential indicators
  - Investment
- Build financial resilience and independence *(the longevity and trends in resources)*;
  - Top income streams
  - Top expenditure commitments
  - Operational Cashflow understanding
  - Exposure to areas of high demand (e.g. Adult and Children Social Care, Education), with consideration also to be given to the proposals for a National Care Service in Scotland
  - In this section further work is anticipated regarding the Council exposure to its Group
- Identify those that should pay by minimising fraud and avoidance *(the security of resources)*.
  - Counter fraud policy and procedure
  - Counter fraud resource
  - National Fraud Initiative
  - Internal and external audit assurance

6.33 The Council's financial resilience framework now sits within this document and has been populated based on the audited annual accounts up to 31 March 2021 and draft annual accounts for the year up to 31 March 2022.

6.34 The framework uses relevant information to measure the Council finances using the Financial Statements and additional information obtained from the Annual Accounts. This provides the data to calculate a consistent set of relevant ratios that are important to measuring the strength and depth of the Council finances.

6.35 The intention is to go further and understand other aspects of the Council's financial position using trend data to consider the impact of history and where possible to look forward based on Council approved plans and strategies. This remains work in progress.

6.36 The relevance and purpose of ratios needs to be carefully considered as they should all have a purpose. The proposal is to avoid simply listing lots of calculations just because they can be calculated, they will have a defined purpose. Examples of the type of ratio that are likely to be included are:

Ratios/Measures	**2018/19**	**2019/20**	**2020/21**	**2021/22**	
Availability of Resources					
Usable Reserves / Net Revenue inc. HRA (%)	11.0%	10.8%	16.4%	17.8%	
Usable Reserves - GF / Net Revenue (%)	8.0%	7.7%	14.2%	14.3%	
Usable Reserves - HRA / HRA Revenue (%)	12.8%	12.7%	14.3%	14.7%	
Reserves Sustainability Measure	4.3	6.6	100.0	100.0	
Level of Usable Reserves	11.0%	10.8%	16.4%	17.8%	
Change in Usable Reserves	-41.3%	-31.4%	50.7%	80.5%	
Council Tax Requirement / Net Revenue (%)	26.6%	26.9%	24.5%	25.5%	
Unallocated Reserves	2.4%	2.6%	2.5%	2.4%	
Earmarked Reserves	5.6%	5.1%	11.7%	11.9%	
Change in Unallocated Reserves (last 3 years)	-8.5%	5.4%	10.0%	16.1%	
Change in HRA Reserves (last 3 years)	13.9%	13.3%	24.6%	23.6%	
Current Ratio	69.7%	77.2%	81.6%	63.6%	
Working Capital	£0k	£0k	£0k	£0k	
Creation of Resources & Gearing					
Net Worth / Net Direct & Indirect Debt (%)	103.2%	88.1%	101.8%	100.1%	
Net Direct & Indirect Debt / Net Revenue inc. HRA (%)	233.6%	247.6%	228.9%	235.8%	

Ratios/Measures	**2018/19**	**2019/20**	**2020/21**	**2021/22**	
Capital Financing Requirement / Total Gross Income (%)	122.2%	119.7%	115.8%	124.6%	
Short-Term Direct Debt / Direct Debt (%)	18.0%	16.9%	18.8%	17.6%	
Interest Payments - GF / Net Revenue (%)	9.7%	10.0%	7.9%	8.5%	
Interest Payments - HRA / HRA Revenue (%)	7.7%	7.4%	5.7%	6.5%	
Interest Payments / Net Revenue inc. HRA (%)	9.3%	9.6%	7.5%	8.1%	
Net Worth	£1,288.9m	£1,216.0m	£1,413.2m	£1,434.5m	
Gross External Debt	£1,248.5m	£1,380.3m	£1,387.7m	£1,433.6m	
Longevity & Trends in Resources					
Adult Social Care Ratio	19.4%	19.6%	18.4%*	21.0%	
Children Social Care Ratio	11.5%	10.4%	8.7%*	tbc	
Education Ratio	37.2%	39.0%	36.5%*	tbc	
*** Note:** 2020/21 figures show the impact of increased government funding to support the Covid-19 pandemic, which means that Net Revenue for the year was increased beyond the approved Local Government financial settlement, money was received late in the financial year and remained unspent at 31 March 2021, also resulting in increased useable reserves. This should be considered when reviewing the indicators – 2020/21 was not a regular year.					

6.37 The data on income and expenditure trends has been taken from audited Annual Accounts, budgets, CIPFA and Scottish Government returns, the contracts register and Scottish Government finance circulars.

6.38 For the purposes of materiality and relevance, we have focused on the highest value 'top 20' income streams and expenditure commitments that the Council has (Appendix 3).

6.39 Security of resources will rely on the three lines of defence in the Risk Assurance Maps, including findings and the opinion of internal and external auditors.

6.40 **<u>Using the Financial Resilience Framework</u>**

6.41 Financial resilience ratios, trends and data collated to support a comprehensive view of the Council is not about there being one answer, nor is about a statement of right or wrong. Instead, it is about providing context for decision making and planning. Through understanding other aspects of Council finance, it's expected the Council can consider more than simply balancing the budget. This might include decisions to grow reserves or address an adverse trend in expenditure commitments or reduce borrowing. This will assist the Council to be well informed and can make the choices it is entitled to make.

6.42 Councils have a very long history and decisions have been taken at different times for different reasons both at a local and national government level that leaves each Council today in the situation it is. Therefore, every Council is in a different position, no two Councils will have experienced the same history and it is inevitable the financial resilience of all will be different.

6.43 The financial resilience framework is be used as the basis for understanding the underlying financial position of the Council, from which decisions must be taken, to provide the basis for highlighting where action is required or where it should be considered. The opportunity to get an insight into aspects of Council finance that may only emerge over time and that on an annual cycle could be overlooked or not given sufficient consideration.

6.44 Some ratios having a direct impact on the short-term financial planning of the Council, while other being considered with aspiration and objectives stretching out over the medium to long term.

6.45 The data can act as triggers for action, with the final chosen ratios, where appropriate, to have in place some parameters to define or describe the urgency, scale and pace of action that is required. As the information accumulates then it can act as an early warning of emerging pressures.

6.46 Interpretation of the data has been indicated in the table at 6.36 and if the ratio appears to be stable or improving or if we should be watching it .

6.47 In relation to the "Availability of Resources" indicators there is an unnatural financial position created by the funding provided to support the Covid-19 pandemic as at the end of March 2021. Increased income was paid late in financial year 2020/21, resulting in large sums of funding being carried forward by the Council and this was replicated in all other Scottish Local Authorities. The indicators do show that the Council was in a strong position going into financial year 2021/22 with a healthy value of usable reserves and an appropriate sum uncommitted for specific purposes. Despite a shift in 2021/22 and the use of some of the reserves carried forward to balance the budget, the indicators show that the Council maintained a strong position improving or maintaining positive trends. Working capital values and the standard affordability test don't present what would be seen as an ideal position (i.e. over

100%) but given the Council's statutory position and treasury management strategy there are no concerns about being unable to meet short-term obligations.

6.48 The Council has maintained strong financial performance into 2022/23 and based on the assumptions within the Quarter 1 Financial Performance results[40] the Council will maintain a balanced budget and retain uncommitted usable reserves at the end of the financial year.

6.49 The 'Creation of Resources & Gearing" indicators show the cost of capital investment being affordable, the reasons include improving (pooled) interest rate levels on which payments are charged as well as the changes that the Council has made to accounting policy in respect of the capital financing, prudently extending the useful lives of assets to better reflect the actual consumption of the assets.

6.50 The value of total external debt must be viewed in the context of the overall assets and resources of the Council as debt arises from investment in our assets. The Net Worth of the Council, after accounting for the debt owed, was £1.4bn at 31 March 2022. The value of debt has increased over the years in line with the capital programme decisions that have been made for both General Fund and Housing. Through reference to the approved Prudential Indicators, that accompanied the 2022/23 budget in March 2022, the capital financing requirement is planned to increase and there will be corresponding increases to the annual repayment values. These have been included in the financial scenario planning within this strategy. Rising interest rates have also been factored into forward projections in the MTFS for the cost of financing debt, and as noted previously, the cost of borrowing remains at a low level historically.

6.51 The longevity and trends in resources is the least developed currently, and while there is information available it requires further analysis before fully presenting it. That includes the schedule of most valuable income streams and highest value contractual obligations. These are shown in Appendix 3.

6.53 An overview of the top 20 income streams shows a picture of generally increasing income on major areas of the budget. Notable however is the extent to which high value income is often associated directly with spend on specific functions and obligations, such as Housing Benefit (where the downward trend is to be expected due to the rollout of Universal Credit), and the Aberdeen Roads Ltd Contract payment, which matches the expenditure also incurred.

[40] Council Financial Performance – Quarter 1 2022/23 (RES/22/152)

6.54 General Revenue Grant shows the final year of additionality included for the impact of Covid, in excess of £10m of additional funding was provided in 2021/22 thereby artificially inflating the increase over the 3 and 5 year period.

6.55 Over the 20 categories of income it represents over £800m of income to deliver the gross budgeted cost of Council services amounting to approximately £887m, or 91% showing how much the Council relies on these very specific funding streams.

6.56 A substantial element of that income is subject to statutory or policy review and highlights the levels of funding associated with the National Care Service (Scotland) Bill that is currently being consulted on. The Council can expect to lose the income and should require that all of the associated costs are also transferred away if that proves to be the case.

6.57 Looking at the expenditure table, there is substantial fixed cost associated with the top 20 commitments, determined and influenced by national conditions, contractual obligations and statutory duties. Representing over £600m of expenditure it demonstrates the categories of spend that need to be influenced and changed to support major resource changes, savings and cost reductions.

6.58 As noted above there are many of these expenditure categories or contracts that need to be looked at as cost neutral as the income is funding the delivery of our services. The Council should continue to ensure that is the case and not commit additional expenditure/cost to these fully funded areas of spend.

6.59 Similar to the income the influence of potential change coming in the future from statutory or policy changes and review is an important factor, and the Council should use this as a means of determining how cost reduction can be incorporated alongside the changes.

6.60 **<u>Future development</u>**

6.61 As referred to above, the Council has group entities that are incorporated into its accounts and therefore holds risk and reward from the relationships that it has. Given the cost of living, inflation and supply chain challenges plus the legacy impact of the pandemic on the group entities, to work with them and analyse their balance sheets and income and expenditure sensitivities, will be an important next step in understanding the relevant exposure that the Council has to each and to document this in an appropriate way.

6.62 The ambition is that with further development and engagement with stakeholders in Scotland this can become more meaningful. Work already published in the LGBF from 2019/20 onwards shows the extent of variation in respect of some of the key indicators that support sustainability and care needs to be taken in interpreting the results, particularly differences between Councils where, for example, some no longer have Housing Revenue Accounts.

6.63 Further work will have to be done on appropriate comparison with other Councils to set the Aberdeen City data in context, rather than for direct comparison, as each Council is following a different strategic plan and are at different stages in those plans and by using information from a common data set, prepared using the same accounting standards it gives the opportunity to compare the Council with its peers. Taking this forward, our Framework has been shared with the Director of Finance Section for Scottish Local Government and has been added to their work plan. Conclusions and recommendations from that work will be updated as part of future strategies.

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: 2022 GENERAL FUND CAPITAL PROGRAMME, Council, 7 March 2022

Outturn 2021/22 £'000	NHCP No.	General Fund Capital Programme	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	Budget 2025/26 £'000	Budget 2026/27 £'000	5 Year Total £'000
		Projects Due for Completion in 2021/22						
10	807	A96 Park & Choose / Dyce Drive Link Road	0	0	0	0	0	0
34	811	Social Care Facilities - Len Ironside Centre	0	0	0	0	0	0
0	843	Station House Media Unit Extension	0	0	0	0	0	0
9	850	Community Growing Spaces	0	0	0	0	0	0
17	857	Central Library Roof & Parapets	0	0	0	0	0	0
0	858	Crematorium Refurbishment	0	0	0	0	0	0
886	870	Town Centre Fund	0	0	0	0	0	0
208	876	Campus Model for Co-location of Public Services	0	0	0	0	0	0
128	888	Nature Restoration Fund	0	0	0	0	0	0
242	889	CO2 Monitors	0	0	0	0	0	0
1,534			**0**	**0**	**0**	**0**	**0**	**0**
		Rolling Programmes						
5,000	294	Corporate Property Condition & Suitability	8,383	9,000	9,000	9,500	9,500	45,383
1,270	551	Cycling Walking Safer Streets	1,003	0	0	0	0	1,003
3,530	765G	Nestrans Capital Grant	2,917	1,295	1,295	1,295	1,295	8,097
750	779	Private Sector Housing Grant (PSHG)	863	900	775	800	800	4,138
6,000	784	Fleet Replacement Programme (including Zero Waste Strategy Fleet)	7,790	4,700	4,900	5,100	5,100	27,590
5,000	789	Planned Renewal & Replacement of Roads Infrastructure	5,964	5,968	5,968	5,968	4,968	28,836
1,000	789E	Street Lighting	1,111	1,200	1,200	1,200	1,000	5,711
1,500	835	Street Lighting LED Lanterns (PACE 5 Year programme)	1,481	1,400	0	0	0	2,881
4,000	861	Additional Investment in Roads	4,403	0	0	0	0	4,403
2,456	875	Investment in Digital Transformation	1,996	1,996	1,945	1,500	1,500	8,937
1,500	877	Northfield Swimming Pool	2,734	150	0	0	0	2,884
32,006			**38,645**	**26,609**	**25,083**	**25,363**	**24,163**	**139,863**
		City Region Deal						
0	825	City Deal	44	0	0	0	0	44
0	845	City Deal: Strategic Transport Appraisal	910	0	0	0	0	910
250	847	City Deal: Digital Infrastructure	2,922	0	0	0	0	2,922
2,708	852	City Deal: City Duct Network	1,610	0	0	0	0	1,610
856	854	City Deal: Transportation Links to Bay of Nigg	1,510	2,500	9,850	10,000	0	23,860
1,000	860	City Deal: Expand Fibre Network	41	0	0	0	0	41
75	862	City Deal: Digital Lead	192	0	0	0	0	192
4,889			**7,229**	**2,500**	**9,850**	**10,000**	**0**	**29,579**
		Fully Legally Committed Projects						
20	587	Access from the North / 3rd Don Crossing	400	817	0	0	0	1,217
3,300	627	Aberdeen Western Peripheral Route	9,063	443	0	0	0	9,506
378	776	Orchard Brae	0	0	0	0	0	0
676	799B	Art Gallery Redevelopment - Main Contract (HLF)	0	0	0	0	0	0
50	805	Technology Investment Requirements & Digital Strategy	263	250	0	0	0	513
12,636	809	New Milltimber Primary	558	241	0	0	0	799
10	810C	Energy from Waste (EfW) Procurement and Land Acq.	133	0	0	0	0	133
0	810G	Co-mingled MRF & Depot	39	0	0	0	0	39
20,474	810K	Energy from Waste (EfW) Construction	30,446	0	0	0	0	30,446
4,000	810K	Torry Heat Network	15,840	0	0	0	0	15,840
100	812	Kingsfield Childrens Home	77	350	0	0	0	427
500	819	Tillydrone Community Hub	500	825	0	0	0	1,325
3,400	821	New Aberdeen Exhibition & Conference Centre	3,206	3,000	0	0	0	6,206
161	824	City Centre Regeneration	2,038	300	0	0	0	2,338
674	824	Provost Skene House	1	0	0	0	0	1
12,000	824	Union Terrace Gardens	5,085	0	0	0	0	5,085
0	828	Greenbrae Primary Extension and Internal Works	82	0	0	0	0	82
7	831	Stoneywood Primary	496	0	0	0	0	496
0	848	JIVE (Hydrogen Buses Phase 2)	7,008	0	0	0	0	7,008
0	849	Cruyff Court	43	0	0	0	0	43
5,245	855	Early Learning & Childcare	2,908	0	0	0	0	2,908
100	859	ICT: Human Capital Management System	159	0	0	0	0	159
7,147	865	Countesswells Primary	11,192	167	0	0	0	11,359
974	871	Low Emissions Zone	0	0	0	0	0	0
1,360	873	Queen Street Redevelopment (including Mortuary)	500	0	0	0	0	500
250	878	St Peters RC Primary Relocation (Design Development)	250	0	0	0	0	250
120	882	Auchmill Community Woodland Path	0	0	0	0	0	0
975	885	Place Based Investment Fund	0	0	0	0	0	0
74,557			**90,287**	**6,393**	**0**	**0**	**0**	**96,680**
		Partially Legally Committed Projects						
0	791	Strategic Land Acquisition	4,092	0	0	0	0	4,092
140	806A	South College Street (Phase 1)	0	500		0	0	500
1,553	806B	CATI - Berryden Corridor (Combined Stages 1, 2 & 3)	1,803	7,546	0	0	0	9,349
0	808B	New Academy to the South - Infrastructure Improvements	0	284	0	0	0	284
1,307	820	Investment in Tenanted Non-Residential Property Portfolio	1,000	0	0	0	0	1,000
10	836	Flood Prevention Measures: Flood Guards Grant Scheme	50	100	100	100	103	453
4,565	840	Tillydrone Primary School	21,431	2,334	460	0	0	24,225
0	844	Sustrans Active Travel Infrastructure Fund	165	300	400	0	0	865
500	868	Car Parking Infrastructure	972	0	0	0	0	972
1,000	869	Safety and Security Measures (including CCTV)	500	836	0	0	0	1,336
135	880	Electric Vehicle Infrastructure	210	135	135	135	0	615
4,000	881	Aberdeen Hydrogen Hub	15,000	0	0	0	0	15,000
20,000	883	City Centre and Beach Masterplans	25,000	25,000	40,000	40,000	20,000	150,000
1,936	886	Bus Prioritisation Fund	10,094	0	0	0	0	10,094
188	887	Play Park Renewal Programme	185	0	0	0	0	185
35,334			**80,502**	**37,035**	**41,095**	**40,235**	**20,103**	**218,970**

		Projects with indicative budgets						
50	810J	Bridge of Don Household Waste Recycling Centre (HWRC)	1,000	1,350	0	0	0	2,350
0	838	Flood Prevention Measures: Millside & Paddock Peterculter	1,000	2,000	0	0	0	3,000
2,896	841	Torry Primary School and Hub	18,118	5,893	351	0	0	24,362
0	872	Smart City	360	0	0	0	0	360
50	874	B999 Shielhill Road Junction Improvements	100	490	0	0	0	590
75	879	The Woodies Environmental Improvements	0	0	0	0	0	0
0	884	Torry Development Trust - Former Victoria Road School	845	564	0	0	0	1,409
0	890	Dyce Library Relocation	740	15	0	0	0	755
150	891	Aberdeen Hydrogen Hub (Joint Venture)	1,350	13,500	4,400	0	0	19,250
0	892	Defibrillators	50	0	0	0	0	50
0	893	Joint Integrated Mortuary	8,500	16,900	600	0	0	26,000
197	806B	CATI - Berryden Corridor (additional funding)	(1,053)	(3,246)	15,600	9,900	8,500	29,701
0	tbc	St Peters RC Primary Relocation	500	1,000	7,750	7,750	0	17,000
0	tbc	Bucksburn Academy Extension (temporary solution)	2,000	0	0	0	0	2,000
0	tbc	Early Learning & Childcare - St Josephs	500	2,300	200	0	0	3,000
0	tbc	King's Gate & Forest Road Pedestrian Crossings	70	0	0	0	0	70
0	tbc	Lighting in St Nicholas Kirkyard	250	0	0	0	0	250
0	tbc	Demolition of old Milltimber Primary	500	0	0	0	0	500
0	tbc	Upgrade of Paths in Newburgh Estate	30	0	0	0	0	30
0	tbc	Garthdee Link Road	300	300	2,900	1,500	0	5,000
0	999	Contingency	20,000	5,000	0	0	0	25,000
3,418			**55,160**	**46,066**	**31,801**	**19,150**	**8,500**	**160,677**
151,738		**Totals**	**271,823**	**118,603**	**107,829**	**94,748**	**52,766**	**645,769**

Outturn 2021/22 £'000	**NHCP No.**	**General Fund Capital Programme - Funding**	**Budget 2022/23 £'000**	**Budget 2023/24 £'000**	**Budget 2024/25 £'000**	**Budget 2025/26 £'000**	**Budget 2026/27 £'000**	**5 Year Total £'000**
0	294	Corporate Property Condition & Suitability	(1,003)	0	0	0	0	(1,003)
(1,270)	551	Cycling Walking Safer Streets	0	0	0	0	0	0
0	587	Access from the North / 3rd Don Crossing	(2,000)	0	0	0	0	(2,000)
(530)	765	Nestrans Capital Works	0	0	0	0	0	0
(85)	784	Fleet Replacement Programme (including Zero Waste Strategy Fleet)	0	0	0	0	0	0
(38)	789	Planned Renewal & Replacement of Roads Infrastructure	0	0	0	0	0	0
(2)	799B	Art Gallery Redevelopment - Main Contract (HLF)	(7,792)	0	0	0	0	(7,792)
0	805	Technology Investment Requirements & Digital Strategy	0	0	0	0	0	0
(2)	806B	CATI - Berryden Corridor (Combined Stages 1, 2 & 3)	0	0	0	0	0	0
(22)	809	New Milltimber Primary	(1,812)	0	0	0	0	(1,812)
(6)	810C	Energy from Waste (EfW) Procurement and Land Acq.	(119)	0	0	0	0	(119)
0	810K	Energy from Waste (EfW) Construction & Torry Heat Network	(5,853)	0	0	0	0	(5,853)
0	821	New Aberdeen Exhibition & Conference Centre	0	0	0	0	0	0
(13)	824	City Centre Regeneration	(133)	0	0	0	0	(133)
(68)	828	Greenbrae Primary Extension and Internal Works	(115)	0	0	0	0	(115)
(308)	831	Stoneywood Primary	(3,407)	0	0	0	0	(3,407)
0	836	Flood Prevention Measures: Flood Guards Grant Scheme	(80)	(80)	(80)	(54)	(76)	(370)
0	838	Flood Prevention Measures: Millside & Paddock Peterculter	0	(2,400)	0	0	0	(2,400)
0	843	Station House Media Unit Extension	0	0	0	0	0	0
0	844	Sustrans Active Travel Infrastructure Fund	0	0	0	0	0	0
0	848	JIVE (Hydrogen Buses Phase 2)	(10,362)	0	0	0	0	(10,362)
0	849	Cruyff Court	(25)	0	0	0	0	(25)
(2,708)	852	City Deal: City Duct Network	(1,610)	0	0	0	0	(1,610)
(856)	854	City Deal: Transportation Links to Bay of Nigg	(1,510)	(2,500)	(9,850)	(10,000)	0	(23,860)
(5,245)	855	Early Learning & Childcare	(2,908)	0	0	0	0	(2,908)
(1,000)	860	City Deal: Expand Fibre Network	(41)	0	0	0	0	(41)
(75)	862	City Deal: Digital Lead	(192)	0	0	0	0	(192)
(100)	865	Countesswells Primary	(1,809)	(2,500)	(2,500)	(1,442)	0	(8,251)
0	869	Safety and Security Measures (including CCTV)	0	0	0	0	0	0
(886)	870	Town Centre Fund	0	0	0	0	0	0
(974)	871	Low Emission Zone	0	0	0	0	0	0
(50)	874	B999 Shielhill Road Junction	(100)	(150)	0	0	0	(250)
0	877	Northfield Swimming Pool	(1,100)	0	0	0	0	(1,100)
0	878	Aberdeen Hydrogen Hub	(15,000)	0	0	0	0	(15,000)
(75)	880	Electric Vehicle Infrastructure	0	0	0	0	0	0
(750)	883	City Centre and Beach Masterplans	(2,318)	(16,932)	0	0	0	(19,250)
0	884	Torry Development Trust - Former Victoria Road School	(845)	(564)	0	0	0	(1,409)
(975)	885	Place Based Investment Fund	0	0	0	0	0	0
(1,936)	886	Bus Prioritisation Fund	(10,094)	0	0	0	0	(10,094)
0	890	Dyce Library Relocation	(740)	(15)	0	0	0	(755)
0	893	Joint Integrated Mortuary	(8,500)	(13,076)	0	0	0	(21,576)
0	tbc	Garthdee Link Road	0	0	0	0	(5,000)	(5,000)
(17,974)		**1. Programme Funding Streams Sub-Total**	**(79,468)**	**(38,216)**	**(12,430)**	**(11,496)**	**(5,076)**	**(146,686)**
(19,375)		**2. Capital Grant**	**(18,638)**	**(18,512)**	**(18,512)**	**(18,512)**	**(18,512)**	**(92,686)**
(114,389)		**3. Borrowing**	**(173,717)**	**(61,874)**	**(76,887)**	**(64,740)**	**(29,178)**	**(406,396)**
(151,738)		**Sub-total**	**(271,823)**	**(118,603)**	**(107,829)**	**(94,748)**	**(52,766)**	**(645,769)**
0		**Net Position**	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX 3: Top 20 Income and Expenditure Categories

	Title	Type of Income	2021/22 Actual Value £'000	last 3-year change £'000	last 5-year change £'000	Continues for at least 5 years?	Subject to regulation/ policy change in next 2 years?	Dependancies
1	GRG + NDR Distribution	Non-Specific Grant	375,000	54,000	43,000	Yes	Yes	Barclay review - Spending Review
2	Council Tax	Fiscal Powers	129,000	13,000	25,000	Yes	Yes	SG / LG Fiscal Framework Outcomes
3	NHS Grampian	Specific Grant	45,717	8,281	20,944	No	Yes	NCS (Scotland) Bill
4	AWPR / Aberdeen Roads Ltd	Specific Grant	44,311	27,815	44,123	Yes	No	Contract terms and conditions
5	Housing Benefit	Specific Grant	41,377	(14,301)	(16,031)	Yes	No	Universal Credit & Economic Conditions
6	Building Services	Fees & Charges	39,017	8,753	8,416	Yes	No	HRA work programme
7	Capital cluster - General Fund Capital	Fees & Charges	36,466	18,879	15,995	Yes	No	Capital programmes
8	ELC Expansion	Specific Grant	25,195	22,889	25,195	Yes	Unknown	Distribution formula & ELC Quantum
9	Aberdeenshire Council Charges	Fees & Charges	21,113	15,120	12,224	Yes	No	Capital programmes
10	Property Letting	Fees & Charges	16,145	4,237	8,968	Yes	Yes	Ecomonic conditions in Aberdeen
11	Adult Social Care Residential	Fees & Charges	9,183	772	(265)	No	Yes	NCS (Scotland) Bill
12	Parking Charges/Fines	Fees & Charges	6,132	(1,489)	(1,630)	Yes	No	Customer behaviour
13	Moray Council Charges	Fees & Charges	5,911	5706	5692	Yes	No	Capital programmes
14	Capital cluster - Housing Capital	Fees & Charges	2,275	(3,920)	(1,493)	Yes	No	Capital programmes
15	Planning / Building Control Fees	Fees & Charges	2,250	(102)	196	Yes	No	Statutory basis, no local discretion
16	NESPF Charges	Fees & Charges	1,810	396	718	Yes	Unknown	National LGPS Review in Scotland remains a commitment
17	Bereavement Services Fees	Fees & Charges	1,795	534	(204)	Yes	No	Competition
18	Common Good Charges	Fees & Charges	1,621	174	(160)	Yes	Yes	Council review of Common Good
19	Adult Social Care Non-Residential	Fees & Charges	1,307	(119)	(29)	No	Yes	NCS (Scotland) Bill
20	Garden Waste Charges	Fees & Charges	1,113	1,113	1,113	Yes	Yes	Review under Partnership Agreement
			806,738	**161,738**	**191,772**			

	Top 20 Revenue Expenditure Commitments by Value 2021/22							
	Title	Type of Expenditure	2021/22 Actual Value £'000	last 3-year change £'000	last 5-year change £'000	Continues for at least 5 years?	Subject to regulation/ policy change in next 2 years?	Dependancies
1	Pay bill - non teachers	Staff	193,981	10,658	18,971	Yes	No	Local Terms & Conditions & National pay negotiations NCS (Scotland) Bill
2	Pay bill - teachers	Staff	102,324	19,797	22,498	Yes	No	National Terms & Conditions & pay negotiations
3	Care Home Placement - Adults	Contracts	46,762	4,536	3,449	No	Yes	NCS (Scotland) Bill
4	AWPR / Aberdeen Roads Ltd	Contracts	44,311	27,815	44,123	Yes	No	Contract terms and conditions
5	Housing Benefits	Transfer	42,092	(15,198)	(15,952)	Yes	No	Universal Credit & Economic Conditions
6	Capital Financing Costs	Capital Financing	38,126	(132)	10,312	Yes	Yes	Capital programme
7	Bon Accord Care - ALEO	Contracts	34,405	5,394	7,799	No	Yes	NCS (Scotland) Bill
8	Unitary Charge - Schools	Assets	19,557	1,590	5,214	Yes	No	Inflation & Number of Buildings
9	Suez waste disposal Contract	Contracts	16,570	1,344	1,622	No	Yes	Contract terms and conditions
10	Non-domestic Rates	Assets	12,391	(133)	2,282	Yes	Yes	Number & Value of Buildings
11	Care Home Placement - Children	Contracts	12,323	1,260	1,666	No	Yes	NCS (Scotland) Bill
12	Utilities	Assets	11,749	1,063	2,170	Yes	No	Inflation
13	ELC Provider Payments	Contracts	10,240	7,336	7,580	Yes	Unknown	Living Wage
14	Fostering Payments - External	Contracts	9,626	(498)	2,053	No	Yes	NCS (Scotland) Bill
15	External Rents	Assets	5,821	(1,439)	3,445	Yes	No	Contract terms and conditions
16	Hire of Vehicles	Contracts	5,292	51	805	Yes	Yes	Number of Employees
17	Sport Aberdeen - ALEO	Contracts	4,895	(564)	(564)	Yes	No	Budget decisions
18	Software Licences	Contracts	4,768	1,429	1,890	Yes	No	Inflation
19	Provision for Bad Debt	Contracts	3,010	2,579	2,796	Yes	No	Collection levels
20	Fostering Payments - ACC	Contracts	809	(45)	(146)	No	Yes	NCS (Scotland) Bill
			619,053	66,845	122,014			