

ABERDEEN CITY COUNCIL

COMMITTEE	Council
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REPORT TITLE	General Fund Revenue Budget and Capital Programme 2024/25 to 2028/29
REPORT NUMBER	RES/24/061
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TERMS OF REFERENCE	1 and 2

1. PURPOSE OF REPORT

- 1.1 This report provides the Council with information on both the revenue budget for 2024/25 and capital programme for the period 2024/25 to 2028/29 in order that approved budgets and the Council Tax rate for main and second homes can be set by the Council for the year commencing 1 April 2024.
- 1.2 In addition, following the devolution of Non-Domestic Rates Empty Property Relief to Local Government, the Council must decide on an Empty Property Relief Scheme that will apply for the year ahead.

2. RECOMMENDATIONS

It is recommended that Council:

2.1 **Balance Sheet Recommendations**

- 2.1.1 Note the projected balance sheet position including the reserves as at 31 March 2024, shown at Appendix 1;
- 2.1.2 Note the financial resilience of the council continues to be stretched by factors, such as pay award, price inflation and funding settlement, which remain out with the control of the council
- 2.1.3 Note that the latest Risk Appetite Statement has been approved and now reflects a cautious appetite for longer term capital and financial investment, and remains averse to risks associated with impairing financial stewardship, internal controls, and financial sustainability;
- 2.1.4 Give due regard to the Council's Financial Resilience Framework measures, included at Appendix 2, and Prudential Indicators, at Appendix 3, when setting Council Tax and the Revenue and Capital budgets;

- 2.1.5 Approve the Prudential Indicators as attached at Appendix 3 and agree to limit the annual Cost of Financing Capital at 12% of projected Net Revenue;
- 2.1.6 Approve the General Fund Capital Programme as attached at Appendix 4;
- 2.1.7 Consider the capital projects described in Appendix 5, which were referred to the General Fund Capital Programme;
- 2.1.8 Approve the Revenue and Capital Reserves Statement for 2024/25 as detailed in Appendix 6;
- 2.1.9 Approve the retention of the Service Concession Reserve to support the commitment to no compulsory redundancies, as a funding source for continued use of the voluntary severance / early retirement scheme (VSER); and
- 2.1.10 Instruct the Chief Officer – Finance to build a long term outlook model for the Council and submit it, alongside the Medium Term Financial Strategy, to the Council by the end of September 2024.

2.2 Medium-Term Financial Projections

- 2.2.1 Note the forecast medium-term financial projection for the period ending 31 March 2029 as shown in paragraph 5.16; and
- 2.2.2 Instruct the Chief Officer – Finance to refresh the Medium Term Financial Strategy and report to the Council by the end of September 2024 in line with the requirements of the budget protocol.

2.3 Risks

- 2.3.1 Notes that pay negotiations for financial year 2024/25 are not concluded and therefore remain uncertain;
- 2.3.2 Note the ongoing exposure that the local government sector has to inflation, with 'very high' exposure applying to a number of procurement frameworks relevant to the Council;
- 2.3.3 Note that high inflation has increased the cost of bond repayments, increasing the forecast cost of borrowing for the Council;
- 2.3.4 Note the extent of contingent liabilities described in Appendix 13.
- 2.3.5 Instruct the Chief Officer – Finance, to monitor budget planning assumptions on pay award, supply chain risk and cost of borrowing and to advise Finance and Resources Committee of any in year changes required via Financial Performance Quarter 1 report; and
- 2.3.6 Instruct the Chief Officer – Capital, in consultation with the Chief Officer – Corporate Landlord and Chief Officer – Finance, to keep the Capital Programme under review from a value for money perspective and to advise the Finance and Resources Committee, as part of the Financial Performance Quarter 1 report, on any action required.

2.4.1 Annual Revenue Budget Recommendations

- 2.4.2 Note, that on a like for like basis, the 2024/25 Local Government settlement has resulted in the Council receiving a 1.1% reduction (£4.9m) to revenue funding being awarded from the current year;
- 2.4.2 Note that the conditions outlined by the Scottish Government within the Local Government Finance Settlement for 2024/25 are met by the proposals set out in the report;
- 2.4.3 Note that the General Fund budget has £4m of in-year contingencies included to provide for unknown risks that may arise during the year, this represents only 0.7% of the net budget;
- 2.4.4 Approve the savings and redesign of Council services to address demand, and to set at least a balanced budget for financial year 2024/25, having due regard to the:
 - a) Budget Model as contained in paragraph 5.16 that identifies a funding shortfall of £25.3m for 2024/25;

- b) Impact of service redesign on services and fees and charges described in Appendix 8;
 - c) Revenue and Capital Reserves Statement, that sets out the Council should maintain uncommitted General Fund balances of between a minimum of £12m and £34m;
 - d) Savings options and cost of implementation put forward in Appendix 8 and Fees and Charges proposals in Appendix 9;
 - e) Convention of Scottish Local Authorities (Cosla) commitment to 1% of the budget being subject to participatory budgeting;
 - f) Revenue items referred to the budget process, as shown in Appendix 10;
 - g) Council's Risk Appetite Statement; and
 - h) Public Sector Equality Duty and the Integrated impact assessments provided;
- 2.4.5 Approve the Commissioning Intentions and Service Standards as shown in Appendix 11; and
- 2.4.6 Note the baseline information provided in Appendix 7 on the three tier prevention model for our group structure and that officers will continue to develop this work through reporting to the ALEO Assurance Hub.

2.5 Annual Revenue Budget Recommendations – Aberdeen City Council Group

- 2.5.1 Approve the level of funding for the Aberdeen City Health & Social Care Partnership IJB 2024/25 to meet the conditions of the Scottish Government Financial Settlement, described in paragraph 6.10, and to note that it will be for the IJB itself to determine how it will balance its budget;
- 2.5.2 Approve the fees and charges for the Aberdeen City Health & Social Care Partnership IJB, as shown in Appendix 9;
- 2.5.3 Approve the level of funding for the Council's other group entities and Arm's Length External Organisations (ALEOs), in 2024/25 with reference to paragraph 6.10; and notes that it will be for the ALEO's themselves to determine how they will balance their budgets
- 2.5.4 Note the baseline information provided on the three tier early intervention and prevention model for our group structure and continue to develop this through reporting to the ALEO Assurance Hub.
- 2.5.5 Instruct the Chief Officer – Finance to give notice to the Board of Directors of NYOP Education (Aberdeen) Ltd to disburse £902,000 to Sport Aberdeen and £221,934 to VSA, both being nominated charities of NYOP; and
- 2.5.6 Instruct the Chief Officer – Finance to recover the full costs associated with being the Administering Authority of the North East Scotland Pension Fund from the Pension Fund.

2.6 Taxation Recommendations

- 2.6.1 Note the offer from the Scottish Government of a grant of £6.978m to freeze the Council Tax rate at the 2023/24 level. In isolation, the value of the grant is equivalent to a 5% increase in the Council Tax rate for 2024/25, noting that the DFM has confirmed in writing to COSLA that funding provided in 2024-25 for the purposes of freezing Council Tax, will be baselined into the General Revenue Grant in future years for those councils which freeze their Council Tax.
- 2.6.2 Note that, subject to the impact of the UK Spring Budget on the Scottish Budget 2024/25, an additional sum of £62.7m has been offered by the Scottish Government to Local Authorities that freeze their Council Tax, this could result in an additional £2m of grant funding for the Council, but this remains conditional and uncertain as the UK Spring Budget will only be published on 6 March 2024;
- 2.6.3 Note that by accepting a grant instead of raising the Council Tax rate it limits the value of income that can be generated for the Council in 2024/25 and as it does

not increase the Council Tax base the future level of income that could be generated will be lower. On that basis reject the grant funding and approve a Band D equivalent Council Tax rate of £1,608.71 (8% increase), with effect from 1 April 2024, noting this will increase income by c.£4m in 2024/25, recurring, over and above the value of the grant on offer to freeze Council Tax referred to at 2.6.1;

- 2.6.4 Note that the Council Tax (Variation for Unoccupied Dwellings) (Scotland) Amendment Regulations 2023 permits a premium of up to 100% (i.e. 200% charged for the property) to be added in respect of Second Homes, and this comes into force on 1 April 2024. Therefore approve the introduction of a premium for those with Second Homes, implementing the full 100% premium to the 100% charge currently applied;
- 2.6.5 Impose and levy Council Tax assessments for the period 1 April 2024 to 31 March 2025 on all chargeable dwellings in Aberdeen City to be paid by the persons liable therefor under the Local Government Finance Act 1992, as amended by the Local Government etc. (Scotland) Act 1994;
- 2.6.6 Note that the Council implements revisions to the national Non-Domestic Rates (NDR) scheme as defined by the Scottish Government within the relevant legislation and Finance Circulars, with effect from 1 April 2024;
- 2.6.7 Approve an Empty Property Relief Scheme for Aberdeen City with effect from 1 April 2024, as set out in paragraphs 5.28 to 5.30; and
- 2.6.8 Impose and levy Non-Domestic Rates assessments for the period 1 April 2024 to 31 March 2025 on all occupiers in Aberdeen City to be paid by those liable.

2.7 Integrated Impact Assessments

- 2.7.1 Consider the IIA's prepared by officers which reflect the findings from Phase 1 and 2 of the public engagement on the budget and Phase 3 involving targeted consultation with individuals and those that represented people with protected characteristics, and the requirements under section 149 of the Equality Act, as set out in the Legal Implications section, which should be applied in respect of a balanced budget for the year 2024/25 .

3. FINANCIAL RESILIENCE OF COUNCIL

- 3.1 Financial resilience framework: The Council adopted a financial resilience framework to understand its underlying financial position and highlight where action is required or considered. The framework uses data from three categories: availability, creation, and longevity of resources. The latest data is available from the audited Annual Accounts for 2022/23, see Appendix 2.
- 3.2 Availability of resources: The Council had a strong position in terms of usable reserves and working capital at the end of March 2023, despite the financial climate in which it is operating. The council used some of its reserves to balance the budget in 2022/23 and maintained an appropriate value of uncommitted reserves, in line with Council approvals.
- 3.3 Creation of resources and gearing: The Council's capital investment was affordable, thanks to low interest rates and prudent accounting policies. However, the cost of future debt has risen due to the Bank of England increasing interest rates to manage inflation, and inflation having an impact on Bond repayments. The council's net worth was £1.5bn after accounting for the debt owed.
- 3.4 Longevity and trends in resources: The Council faces the challenge of balancing the budget, approving savings, and allocating resources to deliver on its strategic

objectives, such as the Local Outcomes Improvement Plan and Partnership Agreement. The Council's financial resilience is underpinned by its assets and reserves, however the future of income sources improving are limited given Local Government reliance on Scottish Government funding for the delivery of services.

- 3.5 Usable and unusable reserves: The Council's usable reserves were the accumulated funds that could be used for future purposes or emergencies. They were divided into earmarked, uncommitted, and statutory funds. The Council has a robust reserves statement to measure the risks and potential liabilities. The unusable reserves are not available for Council use.

4. FINANCIAL OUTLOOK FOR CURRENT FINANCIAL YEAR

- 4.1 Before considering the financial position for 2024/25, it is worth a brief re-cap on the financial outlook for the financial year.

2023/24 Balance Sheet Position

- 4.2 The position as at 31 March 2023 per the audited 2022/23 accounts showed the Council was worth £1.5 billion. The projected balance sheet position at 31 March 2024 is shown in Appendix 1 and estimates the net worth of the Council will be maintained around £1.6 billion by the end of the year. The projected position excludes any revaluations of its land and property assets and movements in liabilities such as pensions which are only reviewed and updated at year end for inclusion within the annual accounts. The Balance Sheet provides information on the currently projected level of reserves and balances held by the Council at 31 March 2024.

2023/24 Revenue Position

- 4.3 At its meeting on 30 January 2024, the Finance & Resources Committee considered the Council's Quarter 3 Financial Performance Report. This was based on the Council having set its General Fund Budget and Council Tax for 2023/24 by 11 March 2023, as required by law, to meet its total estimated expenditure and ensure a balanced budget. The council considered various factors, such as expenditure, income, savings, and contingencies, in setting the budget.
- 4.4 The Quarter 3 Financial performance report and forecast for 2023/24 highlighted the continuing challenges and risks posed by the global, national, and local conditions, such as the Russian invasion of Ukraine, higher inflation, supply chain volatility, and increased service demand.
- 4.5 Controls and actions to manage costs and demand were described with the Council implemented various controls and actions to manage its costs and demand, such as the Establishment Control Board, which imposed a robust recruitment freeze, and a freeze on agency and overtime. The Council also used the Demand Management Control Board to review non-essential spend and approval process.
- 4.6 The Council was able to finalise the pay award for all staff following the conclusion of national negotiations in November 2023, which involved an additional cost of £1.2m, partly met from the contingency budget and partly from the reserves, which will be repaid by the Scottish Government in 2024/25. The Council also reduced its capital programme spending due to the pausing and delaying of some projects, which deferred the revenue cost and financing cost to future years.

4.7 The Council is expected to report a balanced budget for 2023/24.

5. ANNUAL GENERAL FUND REVENUE BUDGET FOR 2024/25

5.1 Short-term financial planning is, in essence, the setting of a balanced budget for the forthcoming financial year as well as determining the level of Council Tax. These are statutory requirements placed on the Council. The short-term planning requires the translation of the financial settlement into the annual financial plan for the council.

Scottish Government Financial Settlement 2024/25

5.2 The total funding package received for the 2024/25¹ financial year is £454.2m (£438.5m 2023/24²). The changes as a result of the Verity House Agreement mean that there is a significant transfer of funding from Ring-Fenced Grants to General Revenue Grant and therefore comparison has been made of the total funding being provided by Scottish Government. At face value this represents an increase in grant funding of £15.7m or 3.6% from 2023/24.

5.3 Through the local government settlement the Scottish Government have the ability to set out any grant conditions that they would wish to see implemented. Contained within the settlement for 2024/25 the following grant conditions are being applied:

- Scottish Attainment Challenge funding, including Pupil Equity Funding remains bound by existing grant conditions;
- Universal provision for P1-P5 and special schools free school meals;
- Maintaining teacher numbers (although no financial penalty has been described for failing to do so);
- Maintaining pupil support assistants;
- Continued support by Council's for probationer teachers;
- New Health and Social Care monies to be passported through to support the Health and Social Care Partnership Integration Joint Board;
- Ring-fenced grant funding is to be applied to the services that are described by Scottish Government (the value of this has reduced for 2024/25).

5.4 While there are no conditions on the decision that the Council can make in relation to Council Tax, there is the offer of a grant, equivalent to 5% of Council Tax income, from the Scottish Government for freezing Council Tax. If the Council chooses not to accept the grant, then no grant will be received but there is no cap or limit on increasing the rate of Council Tax.

5.5 The settlement places obligations / conditions on the Council, and similar to previous years one of those conditions is specific to Health and Social Care funding. This means passporting funding received in the Local Government Settlement for Adult Social Care to the IJB in full. In 2023/24 this included additional funding for pay, and for 2024/25 there is funding for an uplift in free personal and nursing care payments. The impact is an increase of £1.1m in grant to be provided to the IJB. Further funding will have to be provided to the IJB as a further £230m is yet to be distributed by the Scottish Government.

¹ 2024/25 values taken from Finance Circular 08/2023, which was published on 21 December 2023.

² 2023/24 values taken from Finance Circular 03/2023, which was published on 29 March 2023 following the approval of the Local Government Finance (Scotland) Order 2023.

- 5.6 Funding has been provided to support the 2023/24 pay award with recurring revenue funding of £458.0m being included for 2024/25, for the Council this amounts to funding of £16.5m to support the additional costs that will be recurring from 2023/24 that had not been assumed in the Council MTFs. The IJB receives £0.7m of this funding, leaving the Council with £15.8m.
- 5.7 Other funding for pay now in the settlement includes £120.6m transferred from Capital to Revenue (2022/23 pay settlement) and funding to reinstate Council reserves being used this year, a total of £24.2m. These sums are not new and not for 2024/25 therefore £5.4m of the uplift has to be excluded.
- 5.8 Other items to exclude are funding in 2023/24 for Kinship Care allowances and Self Directed Support. This amounts to £0.5m.
- 5.9 From an expenditure perspective an adjustment must be made for any remaining funding streams that are for 2024/25 but which bring a new financial commitment. This relates specifically to further expansion of School Meals, and for the Council that is c.£0.2m in the settlement.
- 5.10 The final adjustment to get a like for like comparison is to identify any funding streams that have been distributed in 2023/24 that have not yet been distributed in 2024/25. There are two of these: Child Disability Allowance and Discretionary Housing Payments funding. In total the Council should expect to receive a further £2.4m of funding once these funding streams are confirmed, otherwise the Council will be unable to spend them.
- 5.11 This means that the Council should have expected to receive an additional £20.6m (£1.1m + £15.8m + £5.4m + £0.5m + £0.2m - £2.4m). The actual amount received is £15.7m, therefore there is a shortfall and reduction of grant of £4.9m from 2023/24 to 2024/25.
- 5.12 The distribution methodology is complex and extremely detailed. Some elements show the Council benefits from for example rising numbers of pupils however this is counteracted by reductions for Early Learning and Childcare reductions and funding to support historic debt significantly reducing from 2023/24 to 2024/25.
- 5.13 There is indication in the settlement that 'new' funding for pay has actually been taken from funding that was already in the financial settlement for 2023/24. However 'The Floor' (the mechanism to smooth the funding across all Councils to protect those where significant funding reductions would apply) transfers funding that the Council would ordinarily have expected to receive to other Councils. In 2024/25 24 Councils contribute to the Floor and 8 Councils benefit by receiving a share of that funding. In total over £88m of funding is redistributed between Councils through the Floor.
- 5.14 Despite this, based on the calculation methodology, the level of council funding exceeds 85% of the Scottish per capita and therefore there is no additional funding from the '85% floor' calculation. No Council has received funding through this mechanism.
- 5.15 The above figures do not include any funding for a Council Tax Freeze, which is discussed separately at paragraphs 5.31 to 5.43.

Impact on the Medium Term Financial Strategy

5.16 Following the analysis of the Local Government Settlement for 2024/25 the financial model for the Council has been updated:

General Fund	Budget 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29
	£'000	£'000	£'000	£'000	£'000	£'000
Children's & Family Services	232,160	262,733	270,985	276,159	280,983	285,745
Commissioning	18,565	19,806	21,041	21,658	22,236	22,800
Customer	42,404	45,995	49,240	51,336	53,105	54,717
Integrated Joint Board	120,781	121,926	121,926	121,926	121,926	121,926
Resources	53,259	59,112	67,344	70,369	74,649	76,592
Corporate	91,725	117,513	125,461	136,656	150,224	158,129
Net Expenditure	558,894	627,085	655,997	678,104	703,123	719,909
Funded By						
General Revenue Grant	(154,116)	(243,079)	(242,828)	(244,762)	(246,714)	(248,683)
NNDR	(257,797)	(208,113)	(207,817)	(210,096)	(212,395)	(214,714)
Council Tax	(137,908)	(138,977)	(140,047)	(140,564)	(141,082)	(141,599)
Use of Reserves	(9,072)	(4,328)	(4,328)	(4,328)	(4,328)	(4,328)
Core Funding	(558,894)	(594,498)	(595,019)	(599,750)	(604,518)	(609,324)
Net Impact on General Fund	0	32,587	60,977	78,354	98,605	110,585
		32,587	28,391	17,377	20,250	11,980
MTFS Assumptions Recurring Savings from:						
Council Transformation	0	(6,611)	(6,244)	(7,942)	(21,687)	(21,687)
Multi-Agency Transformation	0	(500)	(1,525)	(2,810)	(4,010)	(4,010)
Efficiencies	0	(135)	(1,397)	(1,397)	(1,397)	(1,397)
Net Position (Central Scenario)	0	25,341	51,812	66,205	71,511	83,491
Impact of Council Tax Increase:		8.0%	7.0%	6.0%	5.0%	5.0%
Council Tax real terms increase annually		(11,033)	(21,533)	(31,228)	(39,818)	(48,863)
Updated Net Impact on General Fund		14,308	30,278	34,977	31,694	34,629
Impact of Recommissioning in 24/25 - recurring		(22,011)	(22,011)	(22,011)	(22,011)	(22,011)
Impact of Recommissioning in 24/25 - non-recurring		(902)	0	0	0	0
Potential General Fund Position		(8,605)	8,267	12,966	9,683	12,618
Annual Gap between Income and Expenditure		(8,605)	8,267	4,699	(3,283)	2,935

5.17 The table above draws attention to the total budget gap in 2024/25 of £25.3m. It also shows the impact of balancing the budget in 2024/25 using Officer options and based on the assumption that Council Tax should be increase in real terms, per the MTFS. The assumed increases are shown for each year. The recommissioning of services represent the budget options and will reduce expenditure and increase income. Further detail of the assumptions used to model expenditure and income are shown in Appendix 12 and a graphical representation of the funding gap is contained in Appendix 7.

5.18 In order to achieve a balanced budget it requires the implementation of a range of changes that will affect both income and expenditure, changes have to be recurring if they are to address financial sustainability. The proposals, in Appendix 8, are 100% recurring which means that once delivered they will impact positively on the gap between future income and expenditure, reducing the budget gap in years 2024/25 and beyond.

- 5.19 This is demonstrated above (in table at 5.16), and if all the savings were taken in full (plus the assumed levels of Council Tax increase in future years) the overall impact would be to reduce the gap in the future to £21.8m by 2028/29 (subject to further updates to the MTFs). The options presented in Appendix 8 have already been consulted on, cover the next four years and the Extended Corporate Management Team will continue to review these and any other options that are available to the Council as part of the Commissioning cycle.
- 5.20 The Council, setting its budget for 2023/24 made decisions to make limited use of one-off funding, for example, the main one being to direct NYOP to distribute reserves they have to Sport Aberdeen enabling the Council to reduce 2023/24 funding from the General Fund. While there is a further opportunity to direct surpluses from NYOP this year it is not guaranteed and should not be assumed, therefore using one-off funding is an unsustainable approach and therefore each annual budget must unwind the one-off funding solutions increasing the financial challenge in the following year to approve a balanced budget. In total for 2024/25 the Council has unwound £0.7m of one-off funding used in 2023/24.
- 5.21 A refresh of the Reserves Statement is attached at Appendix 6. In setting its budget, and as noted above, the Council must take account of the Reserves position and the resilience. This includes understanding the extent of contingent liabilities referred to above and described in Appendix 13. The Council considers its Corporate and operational Risk Registers during the year, the Corporate Risk Register and Risk Appetite Statement were most recently considered by the Audit, Risk and Scrutiny Committee in February 2024. The review of the Reserves Statement has taken account of known changes that are yet to be reported.

Taxation Powers : Non-Domestic Rates

- 5.22 The value of distributable Non-Domestic Rates (NDR) for Scotland has been assessed as £3,068m. This figure uses the latest forecast of net income from non-domestic rates in 2024/25 and also draws on council estimates of the amounts they will contribute to the Non-Domestic Rating Account (the 'Pool') in 2023/24. The figure incorporates the Scottish Fiscal Commission's estimate of the contributable amount and includes a calculation of gross income; expected losses from appeals; estimated expenditure on mandatory and other reliefs; write-offs and provision of bad debt together; and estimated changes due to prior year adjustments. This means that the anticipated level of NDR distributable to Aberdeen City in 2024/25 will be £208m (2023/24 £258m).
- 5.23 The total level of NDR distributable to the Council differs from the collectable value in the city, and as such it represents the guaranteed sum the Council will receive from the national pool. The Council will bill and collect NDR during the year however the General Revenue Grant is varied during the year to take account of any differences that occur between the local sum collectable and the guaranteed distributable sum.
- 5.24 The Valuation Roll has been subject to reassessment, and values for Aberdeen City Council properties have experienced both upwards and downwards revaluations. The revaluation came into effect on 1 April 2024.
- 5.25 In 2022/23 the Scottish Government implemented new arrangements whereby valuation appeals from the public sector that are successful will result in an adjustment to grant funding. This is based on the need to remove the volume of

appeals received by assessors in order to facilitate a triennial valuation cycle as recommended in the Barclay Review. The process incentivises the public sector to have pro-active advance discussions with assessors to pre-agree valuations and avoid the formal appeal process.

5.26 The 2024-25 Non-Domestic Basic Property Rate ('poundage') is provisionally set at 49.8 pence, the same rate as last year. The Intermediate Property Rate (levied on properties with a rateable value from £51,001 to £100,000) and Higher Property Rate (levied on properties with a rateable value over £100,000) will increase by inflation to 54.5 pence and 55.9 pence respectively.

5.27 The Scottish Budget 2024/25 introduces a range of changes to existing reliefs and a number of transitional reliefs, which are detailed in the Local Government Settlement, Finance Circular 08/2023.

Aberdeen City Council Empty Property Relief Scheme

5.28 With effect from 1 April 2023 Empty Property Relief was devolved to local authorities, covering all relief and rates exemptions for fully unoccupied properties including listed buildings, properties where the owner is in administration, etc. Partly unoccupied properties that the council requests be apportioned by the assessor will be liable for rates on the occupied portion only. Councils may offer their own local reliefs under the Community Empowerment (Scotland) Act 2015 including to empty properties.

5.29 The current scheme in Aberdeen City is set out in the following table:

Non Domestic Rates – Empty Property Relief Scheme	
Following the existing types of relief, the proposed scheme is a consistent award of '50% for three months, followed by 10% thereafter' and this is applied across all relief categories (except the 100% relief applied to properties where the owner or tenant company has entered insolvency).	
The initial award of 50% relief for three months would apply from the date the property became empty, as opposed to the policy start date (1 April 2023). This scheme does not apply to periods prior to 1 April 2023.	
Type of Relief	Relief % and period
Industrial Properties e.g. factories, warehouses, workshops, garages where the whole or main use of the property falls within these categories	50% for 3 months, thereafter 10%
Non-Industrial Properties e.g. shops, offices, retail warehouses where the whole or main use is non-industrial.	50% for 3 months, thereafter 10%
Historic/Listed	50% for 3 months, thereafter 10%
Rateable Value is less than £1,700	50% for 3 months, thereafter 10%
Serious Fire Flood Incapable of Occupation	50% for 3 months, thereafter 10%

Vacant Ground	50% for 3 months, thereafter 10%
Executor	50% for 3 months, thereafter 10%
Insolvency	100%, unlimited period

- 5.30 As at 13 December 2023 there were 1,105 properties in receipt of relief under the scheme, with a combined value of relief of £4.2m. The options for balancing the budget in 2024/25 include a proposal to revise the scheme and the Council is required to confirm the scheme that will apply from 1 April 2024.

Taxation Powers: Council Tax

- 5.31 Council Tax income is the largest single income stream that the Council determines the value of and retains the full benefit of. Since 2022/23 the Council has had the ability to set a rate of its choice.
- 5.32 The Medium Term Financial Strategy (MTFS), 2023, recommended 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.
- 5.33 In October 2023 the Scottish Government announced that funding would be provided to support a Council Tax freeze for 2024/25. That funding package was announced in the Scottish Budget on 19 December 2023 as £144m, and described as the equivalent of 5% increase in Council Tax across Scotland.
- 5.34 The distribution methodologies have been clarified by the Scottish Government in February 2024, and confirmed that Aberdeen City would receive a grant of £6.978m in return for freezing the Council Tax. Taken in isolation, this is the equivalent of the additional income that would be collected from a 5% increase in the rate of Council Tax.
- 5.35 On 21 and 23 February 2024 the Deputy First Minister (DFM) wrote to COSLA and Council Leaders stating and then clarifying that following discussions between them the Scottish Government was committing to provide a further £62.7m of funding to Local Authorities if they were to freeze Council Tax for 2024/25. This commitment is subject to the outcome of the UK Spring Budget, which is due to be published on 6 March 2024. This conditionality makes the offer, of what would amount to approximately £2m for the Council, uncertain and therefore has not been modelled into the budget scenario.
- 5.36 It is clear that only the Council can set the Council Tax rate therefore the Council will have to decide, whether to accept the grant funding and approve a 0% increase (freeze) on the rate, or to set its own Council Tax rate and forgo the grant funding.
- 5.37 As reported to Council in December 2023 (RES/23/388) the Chief Officer – Finance has considered all aspects of the financial environment and assumed for financial modelling purposes an increase in the rate of Council Tax equivalent to 8% in 2024/25. This reflects the lower than inflation increase approved for 2023/24 and the stubborn nature of inflation during this year, to approve an increase of 8% would generate additional income for the Council of £11.0m in 2024/25.
- 5.38 The Council in considering the options for balancing the 2024/25 budget it is recommended to approve an increase in the rate of Council Tax, as it will provide

protection for cost and demand increases in the years ahead and as a recurring income stream will improve the Council's sustainability, by raising the baseline on which future Council Tax rate changes are made. For illustrative purposes the table below shows the impact of alternative increases, with other assumptions being:

- Collection rates will reflect the experience of 2023/24, which is on budget.;
- Bad debt levels remain constant at 2.4%; and
- The number of Band D equivalent properties will increase by 0.8%, such that projected income will increase by £1.07m.

5.39 The current Band D value for Aberdeen City is £1,489.55 per annum, excluding water and waste water charges. The impact of percentage increases in Council Tax by Band is shown in the table below:

Council Tax Band	2023/24	Indicative 2024/25 Charge if percentage increase applied							
	Council Tax	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%	11.00%	12.00%
Band A	£ 993.03	£ 1,043	£ 1,053	£ 1,063	£ 1,072	£ 1,082	£ 1,092	£ 1,102	£ 1,112
Band B	£ 1,158.54	£ 1,216	£ 1,228	£ 1,240	£ 1,251	£ 1,263	£ 1,274	£ 1,286	£ 1,298
Band C	£ 1,324.04	£ 1,390	£ 1,403	£ 1,417	£ 1,430	£ 1,443	£ 1,456	£ 1,470	£ 1,483
Band D	£ 1,489.55	£ 1,564	£ 1,579	£ 1,594	£ 1,609	£ 1,624	£ 1,639	£ 1,653	£ 1,668
Band E	£ 1,957.10	£ 2,055	£ 2,075	£ 2,094	£ 2,114	£ 2,133	£ 2,153	£ 2,172	£ 2,192
Band F	£ 2,420.52	£ 2,542	£ 2,566	£ 2,590	£ 2,614	£ 2,638	£ 2,663	£ 2,687	£ 2,711
Band G	£ 2,917.04	£ 3,063	£ 3,092	£ 3,121	£ 3,150	£ 3,180	£ 3,209	£ 3,238	£ 3,267
Band H	£ 3,649.40	£ 3,832	£ 3,868	£ 3,905	£ 3,941	£ 3,978	£ 4,014	£ 4,051	£ 4,087

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

Council Tax	2024/25	Estimated Additional Income Collected							
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Collectable	137,908	6,895	8,274	9,654	11,033	12,412	13,791	15,170	16,549

5.40 The decision to set Council Tax is part of the budget setting process and is required as part of considering this report.

5.41 In November 2023 Scottish Government laid before Parliament draft legislation aiming to prioritise homes for living in. It allows Local Authorities to charge up to double the full rate of Council Tax on second homes. This change, a Programme for Government commitment, attracted majority support in a joint consultation with the Convention of Scottish Local Authorities (COSLA). It will bring second homes into line with long-term empty homes from 1 April 2024.

5.42 The Council currently charges the full rate of Council Tax on second homes. The estimate for 2024/25, including an assumption that some properties will not remain second homes as they become used as the policy intends, is that the Council could receive approximately £0.75m in additional revenue per annum. This has been included as a budget option.

5.43 The Chief Officer – Finance recommends that this additional fiscal lever is implemented to support the delivery of services and outcomes by the Council.

Service Income

5.44 Ring-fenced Grants and Recharges: The Council receives a significant amount of funding during the year from ring-fenced grants (for example DWP funding for Housing Benefits and funding from the Scottish Government for Early Learning and Childcare and Pupil Equity Funds) and recharges other Council accounts for work done (for example to the Housing Revenue Account and Capital Programme).

- 5.45 The income from these programmes of work and specific activities is reviewed regularly and takes account of changes that are expected when planning the budget. As noted at paragraph 5.2 there is a reduction in the volume and value of ring-fenced funding for 2024/25, with funding streams such as Early Learning and Childcare being transferred into the General Revenue Grant. Reducing the proportion of funding that is ring-fenced provides the Council with greater flexibility in how it deploys resources however does not remove the legal obligation or duty to provide services.
- 5.46 Fees and Charges: Fees and charges raised locally enable the Council to fund some of the services it provides. Clearly, the impact of Covid has had a long-lasting and significant impact on the levels of income that the Council had received during 2020/21 and 2021/22 and the MTFs takes account of a slower return to pre-pandemic levels than had been first assumed. However, the impact on cost of service delivery of pay and price inflation makes even greater impact on the sustainability of services if fees and charges do not rise. Therefore, recommendations on increasing prices have been included in the budget options for 2024/25.
- 5.47 Through the MTFs and building the budget for 2024/25 care has been taken to consider areas where income is expected to take time to recover after the Covid restrictions are lifted. These include car parking, planning and building fees, events, energy and entertainment.
- 5.48 The proposals in the draft budget for additional income will underpin income levels going forward and reflect the expectations of services in designing their services. As a vital component of the budget, fees and charges have been given significant attention when preparing the redesign work. The proposed changes to prices are included in the schedule of fees and charges at Appendix 9.

Summary

- 5.49 The effect of our recommissioning is represented by the list of changes that amount to a total of £22.0m, shown in Appendix 8. This list is designed to assist in defining our redesign and savings opportunities, where the Council proposes to achieve cost reductions and income generation to balance the budget.
- 5.50 The impact will be felt across the Council, with a necessary reduction in workforce through voluntary policies and natural turnover; a change to the level and type of services the Council procures and commissions, as well as increasing charges for services, which will impact on individual and business customers.
- 5.51 The Council must decide how it balances the budget, having taken into account the information contained in this report and in the scrutiny that they have done prior to the Council meeting. If the entirety of recommissioning options were accepted as presented in this report, plus an increase in the rate of Council Tax as recommended, then a balanced budget would be achieved, with a surplus assisting in the delivery of future year saving requirements. The Council must set a rate of Council Tax for financial year 2024/25; and must also set out a Non-Domestic Rate Empty Property Relief scheme, both with effect from 1 April 2024.

Referrals from Committee – items not included in the financial model

- 5.52 Appendix 10 provides details of items that have not been included in the financial model for 2024/25 revenue figures.

6. ANNUAL REVENUE FUNDING OF SUBSIDIARIES, JOINT VENTURES, ASSOCIATES AND ARM'S LENGTH EXTERNAL ORGANISATIONS

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

6.2 The organisations are:

Sport Aberdeen

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

Aberdeen Sports Village

The Sports Village is a joint venture with the University of Aberdeen, and this means that proposals by the Council will be matched by the University, and vice versa. The ASV Board is responsible for making changes to address agreed funding levels.

The partnership agreement refers to funding being approved on the basis of the Contract Year – which is different from the Council's financial year. The impact on the Council of any change is part-year for the forthcoming financial year, and this is factored into budget proposals.

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

The IJB is a joint venture and is funded by both the Council and NHS Grampian (NHSG).

The IJB then directs the Council and NHSG to provide adult social care and health services for which it pays the Council and NHSG as appropriate. The costs the Council incurs in providing those services are included within the relevant services budget.

Bon Accord Care (BAC)

Bon Accord Care and Bon Accord Support Services are subsidiaries and are funded through the IJB for the delivery of adult social care services across Aberdeen. The IJB is required to indicate the value of the services to be provided through the contract and is included in this list for completeness.

Grampian Valuation Joint Board (GVJB)

The Grampian Assessor & Electoral Registration Officer (ERO) is responsible for valuing non-domestic properties for rating, allocating dwellings to council tax bands and maintaining the Electoral Register. The Joint Board is statutory, and categorised as an associate in our group accounts. The Board has the power to requisition funding from the Council and the value is based on the agreed share per constituent council, which for Aberdeen City is 39%.

Aberdeen Performing Arts (APA)

Aberdeen Performing Arts is classified as an ALEO from a Council perspective, as it fails the accounting tests in terms of being a Group entity. APA currently receives funding for the provision cultural events and activities, operating His Majesty's Theatre, the Music Hall and the Lemon Tree.

Funding Approach

- 6.3 As a consequence of the continuing challenges set out in the MTFs, and the reducing levels of grant funding that the Council will receive in 2024/25, Council Officers, in preparation for the public engagement exercises earlier this year, considered the possible options that could be applied in the years ahead. An option that is available to the Council is to remove the subsidy of Sport and Cultural services. The modelling of that option has been done on the basis of 25% reduction in funding over each of the next four years. The implications of funding reductions have to be addressed by the individual companies, the impact on Council finances are summarised in the table below.
- 6.4 With reference to Sport Aberdeen in terms of the instruction from Council, 1 March 2023, for the Directors of Commissioning and Resources to review the assets and delivery model of Sport Aberdeen with a view to them becoming financially independent. Information on Sport Aberdeen assets and its business delivery model was considered as part of the Options Appraisal on Working Arrangements with ALEO's report approved by Council in November 2023 [CFS/23/315], therefore that instruction has been carried out. Engagement with Sport Aberdeen is continuing to ensure that financial sustainability and services are delivered.
- 6.5 In February 2024 the Council considered a report to advise on the progress to date of the Culture Delivery and Funding Review commissioned on July 2023, and included consultation undertaken with cultural partners in respect to options for funding allocation to the cultural sector in 2024/25 to inform the budget process. Appendix 10 refers to this so that consideration of the content of that report can be given during the budget setting process for 2024/25.
- 6.6 The Health and Social Care Partnership IJB and the Grampian Valuation Joint Board (GVJB) have different legal constructs and therefore a different financial relationship with the Council. The conditions of the Local Government Financial Settlement require the Council to 'maintain the recurring funding baseline and passport new monies' to the IJB, while the GVJB has the power to requisition the Council giving it the power to commit the Council to a funding level. This means proposals for these organisations are determined by external factors – the Local Government Settlement and the Budget decision of the GVJB, which took place on 26 January 2024.
- 6.7 The IJB meets on the 26 March 2024 to consider its 2024/25 financial position and medium-term financial strategy.
- 6.8 During 2023/24 the baseline for the IJB has been revised to take account of additional funding that the Council has received from the Scottish Government to support the pay award for this year. Additional funding for 2024/25, so far, in the Council's General Revenue Grant that must be paid over to the IJB amounts to £0.449m, for an uplift in the value of free personal and nursing care allowances.

- 6.9 Further announcements by the Scottish Government are expected in relation to £230m for increases in the Real Living Wage for commissioned services. The distribution of this £230m, and any other funding announced, will be made in the future but will be subject to the same conditions. Therefore the value of funding provided to the IJB will rise during the year and the Council will comply with the terms of the Financial Settlement by passporting the appropriate level of funding to the IJB.

Summary

- 6.10 The table below provides details of the funding levels currently included in the 2024/25 draft budget for these organisations, along with the values as presented by officers as part of the redesign plans for 2024/25:

Organisation	Funding 2023/24 £m	Budget Proposal 2024/25 £m	Funding Change from 2023/24 £m	Funding Change from 2023/24 %
Sport Aberdeen (S)	4.515	3.386	(1.129)	(25.0%)
Aberdeen Sport Village (JV) – (contract year 1 Aug to 31 Jul)	0.824	0.618	(0.206)	(25.0%)
Health & Social Care Partnership Integration Joint Board (JV)	121.483	121.932	0.449	0.4%
Bon Accord Care (S)	35.625	IJB will decide 2024/25 funding		
Grampian Valuation Joint Board (A)	1.952	1.947	(0.005)	(0.24%)
Aberdeen Performing Arts (ALEO)	0.936	0.702	(0.234)	(25.0%)
(S) = Subsidiary; (JV) = Joint Venture; (A) = Associate; (ALEO) = Arm's Length External Organisation				

7. CAPITAL INVESTMENT – GENERAL FUND

Capital Income – Scottish Government Grant

- 7.1 The level of General Capital Grant provided by the Scottish Government is advised through the Local Government Finance Settlement 2024/25 (Finance Circular No. 08/2023) dated 21 December 2023. The General Capital Grant for 2024/25 is £17.1m, with a further £1.0m of specific capital grant available for Cycling, Walking and Safer Routes (CWSR) projects.
- 7.2 The core capital grant for 2024/25 is a reduction of £1.3m (7%) on a like for like basis with 2023/24.
- 7.3 A reducing capital grant is further deterioration of funding to support the necessary and extremely expensive buildings and infrastructure needed to deliver Council services and outcomes. A reducing capital grant means, without adjustments to the capital programme, that a higher proportion of the cost will have to be borrowed. Borrowing has to be funded by the revenue budget and the cost of previous capital decisions accounts for approximately 10% of General Fund Net Revenue.
- 7.4 The continuing low level of capital grant underlines previous advice provided to Elected Members to consider very carefully the value of the capital programme and the sustainability of the revenue implications of borrowing more in future years.

Approval of the Capital programme must be done in line with the CIPFA Prudential Code for Capital Finance, and its principles of capital spending being affordable, sustainable and prudent.

Capital Income – Borrowing

- 7.5 Budgeted capital expenditure over the next five years is £800.3m (including forecast reprofiling of unspent budgets in 2023/24), with associated funding, excluding borrowing, of £198.2m. The balance of £602.1m will require to be funded by borrowing. The approximate revenue cost of servicing this level of borrowing will be £36m per annum by 2028/29, subject to the full deployment of the capital expenditure as profiled.
- 7.6 Borrowing commits the Council to ongoing revenue costs over many years, the future cost of which is expected to rise from a low inflation low interest rate environment. This directly reflects the increase to the Bank of England interest rates, while inflation impacts the cost of the Bond that the Council issued in 2016. Both of these elements mean the Council has to actively manage the timing of long-term borrowing and cashflow requirements and the Council must have due regard to the revenue capital repayment costs that arise from the capital programme.
- 7.7 Recent construction inflation and supply chain challenges have added cost to the delivery of capital projects, the inflation now factored in will not disappear, and the costs are now substantially higher than they have been in the past. This too makes individual projects more expensive and the programme overall more expensive, the higher cost is likely to be funded through borrowing.

Capital Income – Developer Obligations

- 7.8 The construction industry, along with many other parts of the economy, have seen a severe impact on their cash flow and sales figures in recent years. Many of these developments obtain planning permission on the basis of making specific developer contributions to new or improved infrastructure (among other things). These are defined by legal agreements often referred to as a Section 75 Agreement³.
- 7.9 These developer contributions in some instances lead to a capital project being included within the Council's capital programme on the basis of receiving income (i.e., the developer contribution) with the net cost being met by the Council.
- 7.10 As noted last year, these obligations have proved difficult for some developers to continue paying in light of market conditions, and officers continue to meet with developers to discuss these challenges as necessary however in the last year one major local house builder has fallen into administration and as such the matter of developer obligations continues to be identified as a contingent liability due to the potential additional cost that could arise from non-payment.

Capital Programme

- 7.11 The Council, through the approval of the Net Zero Vision and associated Infrastructure Plan in May 2020, has vital documents to assist the development of its capital programme, building on the examples of Energy from Waste project and

³ Section 75 of the Town and Country Planning (Scotland) Act 1997 (as amended)

fleet replacement with alternative fuel vehicles and hydrogen and electric fuelling infrastructure projects.

- 7.12 Other focal points for the programme include the School Estate, noting that the Hazlehead / Countesswells Secondary school has been included in the latest phase of the Scottish Government’s Learning Estate Investment Programme (LEIP) – this provides future revenue funding, rather than any capital contribution, the value of which will not be absolutely certain until the school is open and means the Council has to fund the entire cost (less any developer contributions that can be applied) in the first instance.
- 7.13 Furthermore there remains substantial funding in respect of Aberdeen, the place, projects that cover transport infrastructure, the city centre and the beach.
- 7.14 The General Fund Capital Programme for 2024/25 to 2028/29 (Appendix 4) is broken down into different sections for ease of understanding. It should be noted in general that expenditure is committed for most projects, however flexibility in continuing with projects in the following sections provides Elected Members with an indication of where changes could be made:
- Partially Legally Committed Projects. These are projects where part of the budget has been legally committed but there would be scope to potentially reduce expenditure.
 - Projects with an indicative Budget. These are projects where a legal commitment has not yet been entered into, nor has the procurement exercise been completed. Hence, the figures provided are indicative until such time as market pricing has been received.
- 7.15 Projects in both of these sections still have business case gateways to complete. The profiling of the capital programme has been updated to reflect the latest information, including forecasting the impact of underspending in 2023/24 on 2024/25 to 2028/29.

Referrals to the Budget Process

- 7.16 A number of capital projects have been brought forward for consideration as part of the budget setting process, with a range of instructions given by Committees during the year. The detail on all of these has been provided to Elected Members in relation to the business cases and justification for considering them as part of the future capital investment in the city. Additional information on capital investment and a summary of the projects is included at Appendix 5.

IMPACT ON BALANCE SHEET OF BUDGET DECISIONS

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

Use of Reserves & Funds	Projected Balance at 31 March 2024 £m	Assumed (Use)/ Contribution to Reserves 2024/25 £m	Projected Balance at 31 March 2025 £m
<i>General Fund:</i>			
Earmarked	91.894	(14.878)	77.016
Uncommitted	12.000	0.000	12.000

<i>Housing Revenue Account:</i>			
Earmarked	2.859	0.342	3.201
Uncommitted	13.628	0.500	14.128
<i>Statutory Funds:</i>			
Capital Fund	27.269	0.000	27.269
Insurance Fund	2.281	0.250	2.531
City Improvement Fund	0.337	0.002	0.339
<i>Restricted Funds:</i>			
Capital Grants & Receipts Unapplied	24.266	(24.266)	0.000
Total	174.534	(38.050)	136.484

8.2 It should be noted that the projected balances in Reserves at 31 March 2024 are estimated based on the Quarter 3 financial reporting and are subject to change once all actual transactions have been recorded in the draft Annual Accounts. These projections emphasise the need for care when making budget decisions as the usable reserves (General Fund) are expected to reduce in future years. The General Fund Earmarked reserves have been increased to take account of the Service Concession fiscal flexibility that was approved by Council as part of the 2023/24 General Fund Budget.

8.3 Use of the General Fund reserves in 2024/25 will be because of the progress of specific projects and statutory requirements, such as the use of the Affordable Homes earmarked reserve that is being used to assist in the funding of our new homes in the Housing Revenue Account. Similarly the ongoing progress of transformation will be funded by the Transformation Fund.

8.4 Lowering reserves reduce the Council's financial resilience and provide fewer opportunities to redirect or repurpose funding to support the unknown and unexpected financial implications of events out with Council control. Lower financial resilience and the degree of comfort that this provides may also result in the Council reconsidering its appetite for risk and become more cautious and averse to financial risks.

9. FINANCIAL IMPLICATIONS

9.1 The forecast level of useable reserves that the Council has at 31 March 2024 means that reserves will, in the context of contingent liabilities and the approved Reserves Policy, remain modest, however special attention should be given to the General Fund uncommitted balance being £12m, and only c.2% of annual net expenditure.

9.2 Savings options totalling at least £22.0m, plus the choice of a grant to freeze Council Tax or flexibility to increase Council Tax, are presented for consideration by Council.

9.3 Council must approve savings or income generation options to a level whereby at least a balanced budget is achieved, £25.3m, and take account of the revised Reserves Statement that recommends no less than £12m as an uncommitted General Fund Reserve at the end of the financial year.

9.4 The Council is encouraged to consider increasing the value of revenue contingencies, such is the financial uncertainty, inflation and energy and pay

pressure in particular. To do so would further mitigate the potential impact of the current operating environment and improve sustainability.

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

10. LEGAL IMPLICATIONS

- 10.1 The Local Government Finance Act 1992 requires the Council to set its Council Tax for the next financial year before 11 March each year.
- 10.2 The Act provides that the Council Tax amount set shall be sufficient to meet total estimated expenditure. This means that having taking account of expenditure, agreed savings and income from other sources, the level of Council Tax must ensure that a balanced budget is set by the Council.
- 10.3 Section 149 of the Equality Act 2010 requires public authorities, in the exercise of their public functions, to have due regard to 1) eliminating unlawful discrimination (both direct and indirect), harassment and victimisation, 2) advancing equality of opportunity between different groups and 3) fostering good relations between different groups. The Council also has a legal obligation to balance its budget. The budget options, and potential mitigations, prepared by officers are considered to be a reasonably necessary and proportionate means of achieving that aim. Members should consider the three parts of the duty, including the relationship between, and combination of, when considering the budget options being approved.

11. ENVIRONMENTAL IMPLICATIONS

- 11.1 The Council budget captures all of the revenue and capital expenditure and income that is generated for the General Fund and as a result it is certain that there will be aspects of the resource allocation that promotes an improvement in our environment, while other resources continue to impact on our environment. It is not possible to simply switch all of the budget decisions to be environment positive, the transition will take years.
- 11.2 Included on the agenda is a separate report on Carbon Budgeting presenting the latest information and making recommendations to advance the work on our carbon reduction action plan and reporting.

12. MANAGEMENT OF RISK

- 12.1 The Audit Risk and Scrutiny Committee approved the revised Risk Appetite Statement (RAS) on 12 February 2024 (COM/24/009). The RAS sets out how the Council will balance its risks and opportunities in pursuit of delivering the outcomes set out within the Local Outcome Improvement Plan and associated strategies.
- 12.2 The purpose of this report is to set a revenue and capital budget. In doing so, the Council should have regard to the approved RAS. In particular, it is worth noting that:

- The Council is averse to risks associated with impairing financial stewardship, internal controls, and financial sustainability.
- The Council has an open appetite for short-term risks that support financial performance and mitigate negative external factors; and
- It has an cautious appetite for longer term capital and financial investments provided that the risks are well managed and demonstrate realisable future benefits for delivering the Council's outcomes and commissioning intentions.

12.3 The recommendations and risk assessment carried out below are considered to be consistent with the Council's RAS. Should Council be minded to depart from the recommendations, it is important in doing so that the Council considers the potential impacts across the organisation and on the Council's pursuit of strategic outcomes.

12.4 Risks in the context of the budget are particularly important that warrant additional narrative, in particular pay and price inflation.

Pay

12.5 Local Government has experienced a very challenging pay negotiation between Cosla and the Unions in the last two years that has added significant cost to the pay bill, in part funded by Scottish Government. The pay award claims from unions for 2024/25 will no doubt challenge the financial resources of Local Government given the reduction in Scottish Government funding for 2024/25.

Price Inflation / Supply Chain Volatility

12.6 A combination of factors including led to a massive rise in inflation and a cycle of market and price volatility and shortages across many commodities which is still having a negative impact on the delivery of capital projects, and on revenue expenditure in the delivery of services and procurement processes carried out for affected commodities.

12.7 In the last two years a forty-year high for inflation in the UK, has presented a significant challenge for individuals and organisations. The rate of inflation (CPI) rose during 2022 to 11.1% in October 2022. By the end of 2023 the rate of inflation has reduced to 4%. However while CPI fell substantially in November it rose a little in December. This was largely due to erratic food and energy prices. In terms of underlying, core, inflation (i.e. excluding energy, food, etc.) the drop has been much less pronounced and for services any downwards shift is barely discernible.

12.8 Scotland Excel Supply Chain Intelligence Report, October 2023 highlighted the assessment of the financial exposure this is creating for their procurement framework agreements, while this shows lower exposure for many commodities compared to the January 2023 assessment there is evidence that inflation continues to have a significant impact on Council supply chain. This is shown in the table below:

IBISWorld Sector Title	Relevant Scotland Excel Frameworks	Sector Inflation Exposure
Agriculture, forestry, and fishing	Widespread across food frameworks.	Very high
Manufacturing	Widespread across frameworks.	Very high
Electricity, gas, steam, and air conditioning supply	Widespread across frameworks.	Very high
Water supply, sewerage, waste management and remediation activities	<ul style="list-style-type: none"> Organic Waste Residual and Recyclable Waste Janitorial Products 	Moderate
Construction	<ul style="list-style-type: none"> New Build Residential Energy Efficiency Contractors Building and Timber Materials 	High
Wholesale and retail trade	<ul style="list-style-type: none"> Groceries and Provisions Catering Sundries 	Moderate
Transportation and storage	Widespread across frameworks.	Moderate
Information and communication	<ul style="list-style-type: none"> Audio Visual Digital Publications and Services Education Materials 	Low
Administrative and support service activities	<ul style="list-style-type: none"> Social Care Agency Workers Teacher Booking Vehicle and Plant Hire 	High
Arts, entertainment, and recreation	<ul style="list-style-type: none"> Bikeability Scotland 	Very low
Other service activities	<ul style="list-style-type: none"> Pest Control 	Very high
Accommodation and food service activities	<ul style="list-style-type: none"> Catering Sundries Commercial Catering Equipment Community Meals Repair and Maintenance of Catering Equipment 	Moderate

Financial and Insurance activities	<ul style="list-style-type: none"> Online School Payments Security Services and Cash Collection Sherriff Officers 	Low
Real estate activities	<ul style="list-style-type: none"> Not applicable 	Very low
Professional, scientific, and technical activities	<ul style="list-style-type: none"> Building Construction Consultancy Energy Advice Engineering and Technical Consultancy 	Low
Education	Widespread across corporate frameworks.	Moderate
Human health and social work activities	Widespread across social care frameworks.	Very low
Mining and quarrying	<ul style="list-style-type: none"> Bitumen Products Roadstone Materials Road Maintenance Materials Salt for Winter Road Maintenance 	Normal

Source: IBIS World, September 2023

Exposure Level Data:

- Normal - deviates by less than or equal to 0.5 percentage points from 2% target.
- Very Low - deviates by less than or equal to 1 percentage points from 2% target.
- Low - deviates by less than or equal to 2 percentage points from 2% target.
- Moderate - deviates by less than or equal to 4 percentage points from 2% target.
- High - deviates by less than or equal to 6 percentage points from 2% target.
- Very High - deviates by more than 6 percentage points from 2% target.

*Industry inflation exposure in the United Kingdom is measured as the absolute average weighted deviation of constituent CPIH industry inflation elements from the Bank of England target of 2%.

Source: Scotland Excel Supply Chain Intelligence Report, Executive Briefing, October 2023

12.9 With these known risks the importance of the Council's robust financial management arrangements and process of reporting cannot be understated to maintain full and open understanding of the Councils financial position. Being averse to the risks of impairing financial stewardship, internal controls, and financial sustainability only emphasises the care that must be taken in maintaining that discipline. It is anticipated that the delivery of the savings and income generation that are approved in the budget for 2024/25 will be more challenging than ever with the need for added scrutiny providing further assurance.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic	Use of the General Fund fails to achieve intended strategic objectives.	Commissioning approach and service design built around stretch outcomes in the LOIP.	L	Yes
Compliance	Not setting a balanced budget and setting council tax.	Scrutiny and checking of budget proposals by S.95 Officer, reports and budget pack prepared with appropriate detail to enable and support decision making.	L	Yes

	Not approving recommendations results in non-compliance with law or policy.	Commissioning approach provides information on the implications of savings, linked to the service standards and commissioning intentions enables officers to highlight any changes that may be affected. Any changes to recommendations are considered in light of responses to questions and scrutiny by Elected Members and agreed by Officers as competent.	L	Yes
	Approving recommendations without due regard to the Equality Act or Fairer Scotland Duty results in non-compliance with law or policy.	Integrated Impact Assessments for all budget options provided by officers to ensure that due regard is given to the requirements of the Equality Act.	L	Yes
Operational	Demand pressures undermine budget assumptions on service delivery.	Scottish Government funding announced to date for 2024/25 to take account of changes experienced in year. Contingencies exist within the budget to manage variations in demand and cost.	M	Yes
Financial	Assumptions and judgements used for budget model and options are very different from what the Council faces in 2024/25 leading to additional action having	The latest and most up to date information has been used to calculate and shape the budget model and will continue to be	H	Yes

	to be taken during the year.	refined in advance of the Budget Report being prepared; recommendation for the Chief Officer - Finance to monitor the situation and report.		
	Poor financial sustainability	Report recommends approval of recurring savings, avoiding the use of one-off funding to balance the budget; Process in place for regular updates of medium-term financial position including recognition of potential future liabilities.	M	Yes
	Poor management of large and complex budgets.	Regular review of financial information by services and corporately by Elected Members.	M	Yes
	Non-delivery of savings options leading to overspends against budget.	Savings options are assessed in terms of deliverability; increased scrutiny through CMT.	M	Yes
	Variation in tender prices for capital projects, following procurement against the costs assumed at the time of project approval.	Use of suitably qualified staff or external body to quantify and review indicative project costs.	M	Yes
	Insufficient funding streams to pay for voluntary severance costs that are assumed.	Maintaining the option to use the Service Concession flexibility to provide	L	Yes

	Anticipated income from planning agreements (e.g. section 75 agreements) are not received due to market conditions/economy meaning less resource available for infrastructure interventions.	for funds to be drawn. Regular monitoring of financial data.	M	Yes
Reputational	Failure to properly manage finances including the potential impact on the Council's credit rating.	Regular review of financial information by services, CMT and Elected Members throughout the financial year.	L	Yes
	Focus on cuts may have a negative impact on citizens' view of service delivery	Highlight positive changes achieved despite financial constraints.	M	Yes
Environment / Climate	Failure to recognise the local vision and national targets and to make choices that support the delivery of target.	Service redesign work will consider, where appropriate, the environmental impact of changes.	M	Yes

13. OUTCOMES

Local Outcome Improvement Plan Themes – In addition to our contribution to the multi agency improvement projects outlined in the refreshed LOIP, Aberdeen City council, as a single agency, makes a contribution through its activities to the LOIP outcomes.	
	Impact of Report
Prosperous Economy	The Council's commissioning cycle specifically joins the allocation of resources, through the approval of the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 11, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.
Prosperous People	The Council's commissioning cycle specifically joins the allocation of resources, through the approval of

	the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 11, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.
Prosperous Place	The Council's commissioning cycle specifically joins the allocation of resources, through the approval of the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 11, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.

14. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights	The Council must have due regard to the Public Sector Equality Duty under the Equality Act 2010. The budget proposals presented by officers in this report have been subject to an impact assessment by the relevant Chief Officers, including mitigations where protected characteristics groups are negatively impacted.
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	The Fairer Scotland Duty places a legal responsibility on the Council to actively consider how inequalities of outcome, caused by socio-economic disadvantage, can be reduced. Budget proposals presented in this report have been subject to consideration of the Fairer Scotland Duty as part of the preparation of the integrated impact assessments.

15. BACKGROUND PAPERS

Medium Term Financial Strategy for the Council's General Fund (RES/23/250)
 Budget Protocol: Phase 2 Consultation and Budget Update (RES/23/388)
 Scottish Government Finance Circulars
 CIPFA "The Prudential Code for Capital Finance in Local Authorities
[Integrated Impact Assessments](#)

16. APPENDICES

Appendix 1 – Projected Balance Sheet as at 31 March 2024
 Appendix 2 – Financial Resilience Framework 2023
 Appendix 3 – Prudential Indicators
 Appendix 4 – General Fund Capital Programme 2024/25 to 2028/29
 Appendix 5 – Capital items referred to the budget process
 Appendix 6 – Reserves Statement 2024
 Appendix 7 – Building the Budget
 Appendix 8 – Revenue savings included in Redesign

Appendix 9 – Fees and Charges proposals
Appendix 10 – Revenue items referred to the budget process
Appendix 11 – Commissioning Intentions & Service Standards
Appendix 12 – Medium-Term Financial Strategy assumptions
Appendix 13 – Contingent Liabilities

17. REPORT AUTHOR CONTACT DETAILS

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