

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	2 October 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Medium Term Financial Strategy for the Council's General Fund, 2024
REPORT NUMBER	CORS/24/283
DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Scott Paterson
TERMS OF REFERENCE	21

1. PURPOSE OF REPORT

- 1.1 The purpose of a Medium Term Financial Strategy (MTFS) is to pull together in one place the known factors affecting the financial position and financial sustainability of an organisation's General Fund over the medium term. Furthermore, the purpose is to draw out the scenarios that the Council faces and to describe the approach to addressing the conclusions.

2. RECOMMENDATIONS

That the Council: -

- 2.1 Approve the Medium Term Financial Strategy for the General Fund, 2024;
- 2.2 Note that the Scottish Government, in light of the July 2024 General Election and limited information provided by the UK Government in advance of the Autumn Budget Statement at the end of October 2024, has not yet published a revised Medium Term Financial Strategy (MTFS) for 2024. The Scottish Budget for 2025/26 has been announced as being presented to the Scottish Parliament on 4 December 2024;
- 2.3 Note that the Scottish Government published its latest Programme for Government in September 2024, alongside announcements of several emergency spending controls and savings measures for 2024/25. This, in addition to the outcome of the Local Government Settlement for 2024/25 and information included in the previous MTFS from Scottish Government means the Central Scenario maintains a flat cash position for grant funding from the Scottish Government for future financial years. The MTFS model also includes previously approved savings of £9.155 million for 2025/26, and will be updated for the Council's Budget meeting in March 2025 with details of the actual financial settlement for 2025/26;
- 2.4 Note that the Strategy relies on delivering its intentions contained in the TOM1.2 report [Council, August 2022, CUS/22/171 and Council, February 2024,

CUS/24/043] which describes the approach the Council intends to take through transformation and multi-agency working to contribute towards closing the gap between income and expenditure forecast;

- 2.5 Note that although inflation has fallen back to Bank of England target levels, the 2024/25 pay awards for Scottish local government have still to be agreed, and this may have an impact on the future funding gap;
- 2.6 Note that the report Capital Programme Delivery: Projects Update – CR&E/25/273 was presented to the Finance and Resources Committee on 12 September 2024;
- 2.7 Note that the Capital Programme, as included in the Council Financial Performance Quarter 1, 2024/25 report (CORS/24/223), is the basis for capital financing costs and debt levels referred to in the MTFS and following the regular review of the Loans Fund Repayment Policy, approve the policy for 2025/26 and beyond as described in Table 5 of the MTFS;
- 2.8 Note the 2025/26 Budget will be discussed and set by the Council in March 2025 following an extensive public engagement exercise as required by the Scheme of Governance and Budget Protocol, and that details of the Phase 1 consultation exercise are contained in Appendix 4. For Phase 2 consultation, while the central scenario will be key, it will be prudent to identify the impact of options that address the Downside scenario shown in the MTFS 2024 and the results of the engagement will be reported to Council in December 2024;
- 2.09 Note that the Council's Financial Resilience Framework shows that the General Fund has underlying resilience of £12m (uncommitted reserves) which is a falling percentage of the net General Fund budget. The Council should consider if, in the current financial climate, that is sufficient and decide during the 2025/26 budget setting process whether to budget for this to increase;
- 2.10 Note that the strength of the Council Balance Sheet as at 31 March 2024 (net worth is £1.35bn) is reduced from to the year before. Key changes are in unusable reserves relating to the capital accounting and asset valuation changes;
- 2.11 Note that the Resilience Framework identifies that the total value, and cost of servicing, debt is rising. Careful consideration will have to be given to each and every capital project to ensure it fits with the Council's Strategic priorities, ensures it delivers Best Value, as well as being affordable, sustainable, and prudent in compliance with the Prudential Code;
- 2.12 Note that the options available to the Council for managing rising debt levels include reducing the scale and scope of the General Fund Capital Programme or extending the programme of projects over a much longer period. With the costs rising, these capital financing costs are forecast to become a larger proportion of the Council's net income. The Council approved a cap on the cost of capital financing of 12% of Net Revenue Expenditure and this will require difficult decisions if Revenue Funding from Scottish Government and Council Tax income does not increase in future years;

- 2.13 Note that the Chief Officer – Finance has an instruction to review the Council’s Long term Financial Strategy and this will be reported to Council later this financial year; and
- 2.14 Note that the Chief Officer – Finance will continue to develop the Financial Resilience Framework with a view to embedding it across the councils financial planning, financial monitoring, and financial year end reporting arrangements.

3. CURRENT SITUATION

- 3.1 The Council’s MTFS 2023 was approved by Council on 23 August 2023, with the financial forecasts updated as part of the budget setting process for financial year 2024/25, approved in March 2024.
- 3.2 Having this overarching document is increasingly important in an environment that has continued to be more challenging and more complex, which has seen the effects of global events such as Russia’s invasion of Ukraine and resulting war, and the supply chain volatility and energy price shocks. The sudden rise in inflation towards the end of 2022 was replaced by a long slow decline in rates throughout 2023. While the initial turbulence appears to be over, the cost of living crisis it created still remains, with higher borrowing costs and higher prices leaves local government and public services with high demand and very limited funding.
- 3.3 The Scottish Government published its latest revised Medium Term Financial Strategy (SGMTFS) in May 2023, which followed 2022’s publication of the first Resource Spending Review since 2011. The spending review was accompanied by a Review of Capital Spending. The SGMTFS comments that it “...demonstrates that the fiscal environment has become even more challenging than when the Resource Spending Review (RSR) was published (May 2022).”
- 3.4 After taking account of the financial environment, the information provided by Scottish Government and the approved budget setting decisions for 2024/25 an updated Medium Term Financial Strategy for the Council’s General Fund has been completed and is attached as Appendix 1.
- 3.5 The Target Operating Model (TOM1.2) [Council, August 2022, CUS/22/171 and Council, February 2024, CUS/24/043] presented the Council with a way forward to transform services and to contribute to closing the future budget gap. Programmes of work include eight on transformation of Council services and four that cut across the Council and our partners as part of our multi-agency transformation approach.
- 3.6 Together, the MTFS and TOM1.2 documents represent the fiscal framework for Aberdeen.
- 3.7 The MTFS provides the Council with an overview of the financial situation and how this is evolving in these uncertain times, and to consider how sensitive the

financial situation is to changes in income and exposure to demand and inflation.

- 3.8 The strategy draws on a range of information and data and relies on scenario planning to express a range of financial consequences that will only become certain with actual experience and with more and better information over time.
- 3.9 Scenarios do allow us to develop the actions and activities needed to balance our finances, and a Central Scenario is presented alongside Upside and Downside Scenarios, giving us an insight into the spectrum of difficulty that the Council faces.
- 3.10 The strategy sets out a range of principles for income, expenditure and capital investment that are designed to support financial resilience and financial sustainability, and these are included at paragraphs 1.1 to 1.20 of the Strategy.
- 3.11 The question of financial resilience is one that continues to be very important to local government, greater emphasis is being placed on the test of 'going concern' than ever and while local government is presumed to be a going concern it is clear from recent s.114 notices in England, for example, that this cannot be taken for granted. The report on the MTFs last year instructed the Chief Officer – Finance to continue to develop the framework for financial resilience and additional data has been included and this has led to further recommendations.
- 3.12 The Financial Resilience Framework was populated with information from the Council's Annual Accounts, for the four years up to 31 March 2023 and this has been updated to include the audited Annual Accounts for 2023/24. The information is therefore the cumulative effect of decisions taken over many years and does not by itself reflect what the future position may look like. I have made reference to the table at 6.36 of Appendix 1, to whether the ratio appears to be stable or improving or if we should be watching it. The figures on their own provide information to provide assurance to the Council that the underlying strength of the finances are healthy given the volatile and high-cost environment we are working in, i.e. it has financial reserves on which to draw in the event of further financial shock, but that resource is finite and non-recurring.
- 3.13 It is acknowledged that the benefits from having this data are yet to be fully realised, with further work and comparison required. That said there is sufficient insight to highlight indicators that should be carefully considered when making budget decisions going forward.
- 3.14 I have included Directors of Finance Section for Local Government in engaging in the development of the various strands of the framework with a view to the Financial Resilience Framework developed by the Council, being adopted sector wide.
- 3.15 I will again provide commentary and data as part of the 2025/26 budget setting process, and I will continue development work in conjunction with partners.

4. FINANCIAL IMPLICATIONS

- 4.1 There are none arising directly from the report. The Medium Term Financial Strategy 2024 sets out the financial implications for the Council's General Fund and will be the financial parameters within which the annual budget setting process will be undertaken.
- 4.2 The budget engagement and consultation that the Council will undertake, as Phase 2 of the Budget Protocol, will use the Central Scenario presented by in the MTFs, which is a gap of £54.768m over the next three years, the end of the current Council term. This sits in the context of the whole five year MTFs which presents the financial challenge as follows:

After Assumed Savings	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
General Fund Budget Gap	£M	£M	£M	£M	£M	£M
Downside Scenario	0	47	88	135	182	223
Central Scenario	0	29	44	55	70	78
Upside Scenario	0	6	13	20	28	34

- 4.3 This refreshed modelling includes previously approved savings of £9.155million for 2025/26, rising to £20.699million of previously approved savings by the end of 2027/28.

5. LEGAL IMPLICATIONS

- 5.1 While there are no direct legal implications arising from the recommendations of this report, there are additional reporting requirements due to the London Stock Exchange listing, for example the requirement to notify them ahead of publication of the report.
- 5.2 The financial constraints that are now faced by local government sector and by the Council mean that serious questions have to be raised as to the affordability and sustainability of Council services and the scope, quantity, and quality of them going forward challenging at what point statutory services cannot be delivered.
- 5.3 The Council has a statutory duty to set Council Tax and a balanced budget, and the Strategy sets out the related challenges and the parameters within which this will have to be done. Any failure to comply with this duty would leave the Council open to legal action and/or regulatory intervention.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 While there are no direct environmental implications from the recommendations in this report, the development of the MTFs must have a reference to the environmental objectives and targets that the Council has a duty to deliver on. Those duties come at a cost and where possible the scale of the challenge has

been described, it is clear however that an enormous amount of further work is required in order to quantify the detailed proposals, business cases and funding solutions to meet of those duties.

- 6.2 The MTF5 will continue to take account of the latest information in relation to our actions towards Net Zero as it is regularly refreshed.

7. MANAGEMENT OF RISK

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 Risk	Failure to recognise the consequence of the economic and local circumstance could lead to poor use of resources	The Strategy is in place to look forward into the medium term and plan for the future to improve the likelihood of resource allocation being aligned to strategic outcomes.	L	Yes
Compliance	Failure to set balanced budget.	A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March.	L	Yes
Operational	Failure to take account of the financial constraints described in the MTF5 and to change operational arrangements to be affordable could lead to unplanned spending reductions.	A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March.	L	Yes
Financial	The assumptions are insufficiently sensitive to the	The strategy is based on scenarios that present a range of	M	Yes

	situations that might arise, resulting in a larger financial challenge.	potential impacts for the Council's finances. It will be kept under review. Financial planning assumptions are subject to two reviews annually, the MTFS and the Annual Budget report.		
Reputational	There is a risk that through the reduction of expenditure the Council may be criticised that spending is not in line with public expectation of service delivery.	The Council has continued to address priority spending areas, and to protect people. It is equally accountable for the use of public funds and to ensure that they are managed robustly. There are a wide range of unknown external factors that require to be balanced to deal with the current operating environment. Regular reporting during the year provides an ongoing description of the position the Council is in and the situations it faces.	M	Yes
Environment / Climate	Failure to take account of the long-term objectives in relation to our climate and the associated costs may lead to unexpected or unplanned expenditure.	The Council has put in place appropriate strategies to target the Net Zero objectives and continues to work on the long-term costs and affordability. The MTFS will continue to be updated to reflect the latest information.	M	Yes

8. OUTCOMES

<u>COUNCIL DELIVERY PLAN</u>	
	Impact of Report

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

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	No assessment required. I confirm this has been discussed and agreed with Jonathan Belford, Chief Officer Finance on 10 September 2024.
Data Protection Impact Assessment	Not required

10. BACKGROUND PAPERS

None.

11. APPENDICES

Appendix 1 – Medium Term Financial Strategy for the Council's General Fund 2024

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