

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	11 December 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Budget Protocol: Phase 2 Consultation & Budget Update
REPORT NUMBER	CORS/24/357
DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford / Martin Murchie
REPORT AUTHOR	Jonathan Belford / Martin Murchie
TERMS OF REFERENCE	2

1. PURPOSE OF REPORT

- 1.1 The report satisfies the requirements of the approved Budget Protocol, in respect of reporting to Council the results of the Phase 2 Public Budget Consultation, which includes details of the current estimated budget position for 2025/26, the budget options and the Integrated Impact Assessments (IIA).
- 1.2 In addition the report provides a brief update on the budget model following the UK Budget, announced on 30 October 2024, where it is currently known to affect the Council.

2. RECOMMENDATIONS

That Council

- 2.1 Note the contents of the report;
- 2.2 Agree, subject to any further clarification from Scottish Government, that the General Fund budget model for 2025/26 will assume the cost of increased Employer National Insurance Contributions will be fully funded;
- 2.3 Note that COSLA has identified that the wider cost of Employer National Insurance Contributions increasing has implications for services commissioned and funded to deliver public services;
- 2.4 Agree that the Chief Officer – Finance, working with the Extended Corporate Management team, update the General Fund financial model for 2025/26 for the Local Government Financial Settlement for 2025/26 from Scottish Government and to take account of the analysis work described in the report;

- 2.5 Agree, due to the new financial risks, that updated financial modelling is done in conjunction with NHS Grampian, for the Aberdeen City Integration Joint Board and included in the General Fund budget report for 2025/26; and
- 2.6 Note that the Council will be presented with the final budget position and the request to approve a balanced General Fund Revenue and Capital Budget, and set Council Tax for 2025/26 at the Budget meeting on 5 March 2025.

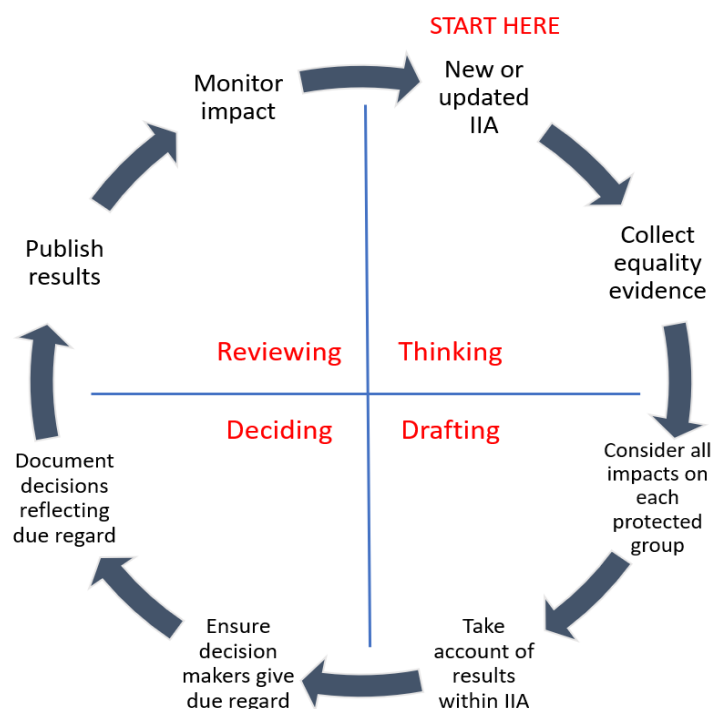
3. CURRENT SITUATION

- 3.1 On 11 October 2024 the Council approved the latest Medium Term Financial Strategy (MTFS) (CORS/24/283). This included the feedback on the Phase 1 Public Budget Consultation, which had been carried out in August 2024, and was the initial engagement step set out in the approved Budget Protocol. This provided the Council with information about what the impact, of taking budget decisions that affect Council services, would have on citizens, their families, the wider community, including those with protected characteristics.
- 3.2 The MTFS sets out scenarios for the future financial position of the Council and the Council agreed that for the second phase of public consultation the Central Scenario would 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, in accordance with the Budget Protocol.
- 3.3 The approved MTFS shows the budget gap for the General Fund for the next five years 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

- 3.4 The Central Scenario, a budget gap next year of £29m and of £55m over the next three years (used as it is the end of the current Council term) was therefore the starting point for the Phase 2 exercise. The Phase 2 simulator was made available online during October and November 2024.
- 3.5 The Budget Protocol is now in its second year of operation and was designed to strengthen the governance around our budget setting process, particularly to help us to understand the impact of budget options on our Public Sector Equality Duty under the Equality Act 2010 before decisions are made by elected members on Budget day. In setting the budget, members must have due regard to the impacts when setting the budget and officers must assess the impacts and any mitigations which will minimise those impacts. Virtual and face to face engagement sessions were organised during both phases of the budget consultation.
- 3.6 Phase 2 of public consultation has now been completed and Integrated Impact Assessments (IIAs), the Council's tool for recording the impact of proposals on

groups of people with protected characteristics, are being updated using the data collected through this engagement, as well as data held internally about service users. This will allow further targeted engagement to take place with any relevant groups or individuals that may be negatively impacted by any of the options, and this feedback will be incorporated into the IIAs referred to by members at the budget meeting. These IIAs continue to be updated and are live, iterative, documents, taking account of the requirement for all budget options to be legally competent and financially achievable, as well as the duty to have due regard to the impact of these options on protected characteristics groups, at the point of decision making.



- 3.7 A revised IIA template was introduced during the summer of 2024 and will reflect improvements to ensure that, when budget decisions are being made, members have full information to allow them to have due regard under the Equality Act. This new template will be provided to Elected Members as part of the final budget options next year.

Phase 2 Public Consultation

- 3.8 The Phase 2 simulator was completed by 1,535 people, fewer than we saw in phase 2 participation last year, however perhaps reflective of the difference in questions asked, focus this year being on gathering the implications of making budget decisions. A summary of the results and feedback is included as Appendix 1.

Current Estimated Budget for 2025/26

3.9 Noted above at 3.3 is the forecast for the General Fund budget gap, as set out in the MTFS, 2024. That financial landscape evolves, and means that changes to the budget gap should be expected throughout the course of the year.

3.10 The detailed position of the Central Scenario captured in the Medium Term Financial Strategy 2024 is shown in the following table.

Budget Forecasts - General Fund	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000	£'000	£'000	£'000	£'000	£'000
City Regeneration & Environment	30,235	38,598	43,667	46,152	48,052	49,992
Corporate Services	43,487	44,132	43,151	41,461	43,144	44,890
Families & Communities	307,384	324,681	328,710	332,260	338,374	341,152
Integrated Joint Board	121,932	121,932	121,932	121,932	121,932	121,932
Corporate	104,429	102,558	112,712	120,322	126,447	128,162
	607,467	631,901	650,172	662,127	677,949	686,127
Funded By						
General Revenue Grant	(252,057)	(252,057)	(252,057)	(252,057)	(252,057)	(252,057)
NNDR	(208,113)	(208,113)	(208,113)	(208,113)	(208,113)	(208,113)
Council Tax	(139,727)	(140,850)	(141,393)	(141,937)	(142,480)	(143,023)
Use of Reserves	(7,569)	(2,065)	(4,821)	(5,252)	(5,423)	(5,419)
	(607,467)	(603,086)	(606,385)	(607,359)	(608,074)	(608,613)
Gap (Cumulative)	0	28,815	43,787	54,768	69,876	77,514

3.11 Changes that officers are evaluating and update working assumptions on are as follows:

- UK Budget Employer National Insurance Contributions (NIC) increase – two changes will be made from April 2025, which the Council will have to pay on behalf of employees it directly employs. The changes affect the starting point at which employer NIC applies and the rate at which contributions are calculated. The starting threshold is dropping by £4,100 to £5,000 and the Employers' NIC rate rises to 15 percent. This means that the cost of employment will rise substantially with an overall estimate for the Council of £7.7m, including the Health & Social Care Partnership.
- UK Budget Employer NIC increase for ALEOs and Funded Providers – the change does not just affect Councils as all employers will see the effect of paying more in employment costs, which works out, for example, at an extra £805 per employee paid £25,000 per annum, which is over 3.2% before a pay award has been applied. There is a clear request and expectation from our partners, group entities, third sector and wider commissioned services that they do not have the funding streams to make these payments without affecting the services they deliver. This has been highlighted to COSLA as a crucial matter given the implications for services commissioned and funded to deliver public services. Without Government funding to support this specific cost pressure the Council does not have the financial resources to provide funding.
- General Revenue Grant - Scottish Government Funding – The Chancellor announced that consequential from UK to Scottish Government would

apply for the Employer NI Contribution cost. Clear parameters and a quantification of the figure for this had not been defined on the date of the UK Budget. There are still negotiations to take place and the value of these will be added to the Scotland consequentials for 2025/26. In the context of a substantial funding gap in 2025/26, for the Council the expectation is that Scottish Government will fully fund the direct cost of the Employer NI contributions change, i.e. £7.7m.

- General Revenue Grant - Scottish Government Funding – commitment has been given to additional recurring funding being provided to support the implementation of the 2024/25 pay award. This amounts to approximately £123m across the Teaching and Non-teaching workforces for Scotland. This is the equivalent of 1.07% uplift in pay during 2024/25. This is on top of the 3.2% contribution that the Council is funding, the 0.2% uplift in value is also being included in the Budget model for 2025/26.
- Continued analysis of budgets and forecasts for 2024/25 – a detailed assessment of budgets included in 2024/25 has been undertaken in light of the spending decisions and transaction data that is now available from the first half of this year. This has provided an opportunity to identify potential savings that will be incorporated into the budget model where appropriate.
- Aberdeen City Integration Joint Board (IJB) – it is clear from the Quarter 2 Financial report that was presented to the IJB on 19 November 2024 that the IJB is going to use their remaining reserves to balance the budget as part of the Recovery Plan put in place. There is no guarantee that the Council will not have to supplement the IJB Budget at year end if their Recovery Plan cannot be delivered therefore the Council, in conjunction with NHS Grampian, needs to carefully consider the ongoing and underlying financial position and resources requirements of the IJB. As part of the Budget report for financial year 2025/26 the Council will receive financial modelling on the scenarios that may be considered.

3.12 At the time of writing, there remain two significant financial risks in respect of the 2024/25 General Revenue Grant:

- Funding for the Teachers' Pension Increases that have applied this year and are being funded from consequentials from UK Government. The distribution methodology has been agreed, but the letter of confirmation has not yet been issued therefore the Council is unclear if it is going to receive the £2.2m it has included in its budget for 2024/25. And therefore whether this value should be adjusted for in 2025/26.
- Funding for Teachers, following approval of the Council Budget the Scottish Government moved £145.5m of funding for teachers from the General Revenue Grant to a Ring-fenced Grant, with the condition that teacher numbers are maintained. Cosla has opposed this change. There is no clarity yet if the funding will be paid in full to all, some or any Councils or if the variation in teacher numbers will be penalised at a local or national level and whether or not extenuating circumstances might apply. With so many scenarios it remains unclear if the Council will receive funding that has also been assumed as part of 2024/25 budget. The amount at risk is currently

£5.2m. Again, should this funding not be forthcoming, the 2025/26 Budget assumptions will have to change in the final 2025/26 budget model.

- 3.13 Scottish Budget and Local Government Settlement for 2025/26 – Local Government will not be known until after the Scottish Budget for 2025/26 has been presented to Parliament on 4 December 2024. In fact, while the Scottish Budget may indicate how much money Local Government will receive, the Local Government Financial Settlement for 2025/26 will not be released until after the latest school census data is released, which I understand is scheduled for the week beginning 9 December 2024. It is only through the Financial Settlement itself that individual Local Authorities can begin to understand the implications of the Scottish Budget at a local level.

Budget Options

- 3.14 As contained in the approved MTFs (CORS/24/283) closing the budget gap relies on a wider range of solutions. Assumed within the MTFs are savings arising from Transformation Programme, Multi-Agency Collaboration and Efficiencies. The work to address these projects and programmes continues having been approved as part of the TOM1.2 (CUS/22/171) and associated reports. Officers are working on delivering the financial benefits from that work and where appropriate report to committee or Council through normal governance arrangements. However, this only addresses a proportion of the identified budget gap.
- 3.15 The Phase 2 Budget Consultation simulator built on Phase 1 options and presented an extended set of options to enable the closing of the budget gap, including savings options and income generation options. In general, these options have an impact on service levels, service standards or the cost of services and in turn will affect citizens, businesses and visitors.
- 3.16 The timing of the implementation for the options was varied, shown to be achievable in the first year (2025/26) through to the final consultation year, year three (2027/28).
- 3.17 The list of all of the options (Phase 1 and Phase 2) that were available to the public is included in Appendix 2, including the titles of the lower level detail options. The focus is to show the value that is estimated as achievable in 2025/26.
- 3.18 Included in Appendix 2 is the option in relation to Council Tax. Council Tax is a vital income stream for the Council, therefore it is important that due consideration is given to increasing this as part of the budget setting process. The Council has the power to set Council Tax, and in exercising that power will have to include consideration of the financial position, the financial settlement received from Scottish Government and any conditions or penalties that apply to our funding. I have included, as Chief Officer – Finance, my planning assumptions for Council Tax in 2025/26, which was described in the consultation as an increase of 7%.

4. FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising directly from this report, however the content of the report describes the current estimate for the financial parameters next year, that will be further updated and presented to the Council in March 2025 to approve the Budgets for 2025/26, and set Council Tax for that year.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications in this report as no decision is required at this stage.

5.2 Aberdeen City Council has to comply with the Equality Act 2010 by giving due regard to the needs of the public sector equality duty. All budget options that are presented to Elected Members in 2025 will be subject to appropriate Integrated Impact Assessments, and all options will also be assessed for any specific legal implications.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. 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	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 preparing to set a balanced budget and set 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
Operational	Options available to	Consulting on the options provides insight	M	Yes

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?
	balance the budget have an adverse impact on the volume and quality of the services delivered.	into the views of the public and implications that may arise.		
Financial	<p>Assumptions and judgements used for budget model and options are very different from what the Council faces in 2025/26 leading to additional action having to be taken during the year.</p> <p>Poor financial sustainability leading to unplanned and unexpected budget / spending decisions.</p>	<p>The latest and most up to date information has been used to calculate and shape the budget model and will continue to be refined in advance of the Budget Report being prepared.</p> <p>The report provides details of options that are generally of a recurring nature and would provide the opportunity to balance the budget on a affordable basis for 2025/26. In setting the budget consideration will be given to the financial resilience of the organisation. The council will continue to</p>	<p>H</p> <p>M</p>	<p>Yes</p> <p>Yes</p>

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?
		seek multi-year funding settlements that would provide increased certainty and improve the council's ability to make decisions that are sustainable.		
Reputational	Failure to prepare to manage finances including the potential impact on the Council's credit rating.	Year-round approach to financial planning, including Medium-term financial planning refreshed annually, options identification and transformation programme actions being progressed.	L	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

8. OUTCOMES

<u>COUNCIL DELIVERY PLAN 2023-2024</u>	
	Impact of Report
Aberdeen City Council Policy Statement <u>Working in Partnership for Aberdeen</u>	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 2016-26</u>	

Prosperous Economy Stretch Outcomes	Robust and effective management of the Council's finances will ensure that services can continue to be provided, which are in pursuit of the stretch outcomes.
Prosperous People Stretch Outcomes	Robust and effective management of the Council's finances will ensure that services can continue to be provided, which are in pursuit of the stretch outcomes.
Prosperous Place Stretch Outcomes	Robust and effective management of the Council's finances will ensure that services can continue to be provided, which are in pursuit of the stretch outcomes.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	<p>The Council must have due regard to protected characteristics under the Equality Act 2010. The budget proposals presented in this report are subject to impact assessment screening by the relevant Chief Officers. This enables officers to ensure proactive steps are taken to identify and mitigate any potential discrimination and violation of human rights and children's rights.</p> <p>Feedback from the Phase 2 Budget Consultation is being used in completing the Integrated Impact Assessments.</p> <p>The IIAs for the described budget options will be available to elected members in preparing for the budget decisions to be taken on 5 March 2025.</p>
Data Protection Impact Assessment	Not required
Other	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 options described in this report are subject to consideration of the Fairer Scotland Duty as part of impact assessment screening.

10. BACKGROUND PAPERS

- 10.1 Medium Term Financial Strategy, 2024 [CORS/24/283].
- 10.2 Budget Protocol [CORS/24/174]

11. APPENDICES

11.1 Appendix 1: Budget Consultation 2024 Phase 2 - Summary Analysis

11.2 Appendix 2: Draft Budget Options

12. REPORT AUTHOR CONTACT DETAILS

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