ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	5 March 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	General Fund Revenue Budget and Capital Programme 2025/26 to 2029/30
REPORT NUMBER	CORS/25/048
DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Jonathan Belford
TERMS OF REFERENCE	1 and 2

1. PURPOSE OF REPORT

1.1 This report provides the Council with information on both the revenue budget for 2025/26 and the capital programme for the period 2025/26 to 2029/30. It aims to enable the Council to set the approved budgets and Council Tax rate for main and second homes for the year commencing 1 April 2025. Additionally, it addresses the need for the Council to decide on an Empty Property Relief Scheme following the devolution of Non-Domestic Rates Empty Property Relief to Local Government.

2. RECOMMENDATIONS

It is recommended that Council:

2.1 <u>Balance Sheet Recommendations</u>

2.1.1 Note the projected balance sheet position including the reserves as at 31 March 2025, shown at Appendix 1;

2.1.2 Agree that the Council needs to find recurring funding solutions to meet recurring costs while retaining prudent reserves that will be available should they be needed, particularly given the wide range of financial risks that remain outside the control of the Council;

2.1.3 Note that the Council's Risk Appetite Statement 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 11% 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 2025/26 as detailed in Appendix 6;
2.1.9 Approve the use of the Capital Fund to support any financial implications arising from Council's support to owners of properties affected by RAAC, see Section 8; and
2.1.10 Continue to retain 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).

2.2 Medium-Term Financial Projections

2.2.1 Note the forecast medium-term financial projection for the period ending 31 March 2030 as shown in paragraph 5.18; 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 2025 in line with the requirements of the budget protocol.

2.3 Risks

2.3.1 Note the Aberdeen City IJB is forecast to use all of its available reserves in 2024/25 to address an in-year budget deficit;
2.3.2 Give due regard to the deficit scenarios that face the Aberdeen City IJB ('Upside' £6.5m; 'Central' £12.5m; and 'Downside' £19m) and the financial exposure in 2025/26 that will mean the Council is prepared in the event of a budget deficit crystalising;
2.3.3 Acknowledge that the Aberdeen City IJB Integration Scheme determines the methodology for financial contributions from partners in the event of an in-year deficit being recorded, and this split is approximately 60:40 (NHSG/ACC);
2.3.4 Agree that the Council exposure to the deficit scenarios is 'Upside' £2.5m; 'Central' £5m; and 'Downside' £7.5m and that the Council should ensure that a minimum of £2.5m of financial risk is addressed on a recurring basis in setting the General Fund budget for 2025/26;
2.3.5 Agree that there will be a funding shortfall to support increased Employer National Insurance Contributions (ENIC), that comes into effect from 1 April 2025, and include budget proposals of a recurring nature, on how the Council will ensure this risk of at least £3m is addressed in 2025/26, as described in the scenarios at paragraph 3.19, which indicates the financial risk could be as much as £8m;
2.3.6 Note that pay negotiations for financial year 2024/25 have concluded but were more expensive than the Council had set aside in the 2024/25 budget, and have only been afforded with support from Scottish Government (funding the difference between 3% and the overall average 4.27% cost of implementation). In the context of the public sector pay policy announced in December 2024, and current inflationary position, the 2025/26 budget model includes provision for a 3% pay award;
2.3.8 Note the ongoing exposure that the local government sector has to inflation, with CPI rising to 3% in January 2025,and has remained above Bank of England targets in recent months;
2.3.9 Note the extent of contingent liabilities described in Appendix 13; and
2.3.10 Instruct the Chief Officer – Finance, to monitor the delivery of the approved budget and advise the Finance and Resources Committee of any in year changes required via the Financial Performance reports.

2.4.1 Annual Revenue Budget Recommendations

2.4.2 Note, that on a like for like basis, the 2025/26 Local Government settlement has resulted in the Council receiving an additional £8.9m of 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 2025/26 are met by the proposals set out in the report, including the requirement to maintain teacher numbers at 2023 levels;

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 0.6% of the net budget, which leaves the smallest of margins when operating c.£1bn of gross expenditure per annum;

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 2025/26, having due regard to the:

a) Budget Model as contained in paragraph 5.18 that identifies a revised funding shortfall of £18.1m for 2025/26, after recognition of the emerging financial risks from the Aberdeen City IJB and shortfall in funding for Employer National Insurance Contributions (ENIC);

b) Revenue and Capital Reserves Statement, that sets out the Council should maintain uncommitted General Fund balances of between a minimum of £12m and £34m;

c) Savings options and cost of implementation put forward in Appendix 8 and Fees and Charges proposals in Appendix 9;

d) Convention of Scottish Local Authorities (Cosla) commitment to 1% of the budget being subject to participatory budgeting;

e) Revenue items referred to the budget process, as shown in Appendix 10;

f) Council's Risk Appetite Statement; and

g) Public Sector Equality Duty and the Integrated impact assessments provided.

2.4.5 Approve funding awards for the Cultural Investment Framework for 2025/26, and indicative funding for the following two years;

2.4.6 Note the Commissioning Intentions and approve the Service Standards as shown in Appendix 11; and

2.4.7 Instruct the Chief Executive, in light of the notified retirement of the current postholder of the Chief Officer – Capital, to commence a recruitment & selection process to consider internal and external applications together, in accordance with Appendix 3 of the Standing Orders: Protocol for Appointment of Chief Officers.

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 2025/26 to meet the conditions of the Scottish Government Financial Settlement, with reference to paragraph 6.8, and to note the financial scenarios for 2025/26 that apply to the Aberdeen City IJB, considering the implications for the Council and noting that the IJB will determine how it will balance its budget in March 2025;

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 2025/26 with reference to paragraph 6.8; and notes that it will be for the ALEOs themselves to determine how they will balance their budgets; and

2.5.4 Instruct the Chief Officer – Finance to give notice to the Board of Directors of NYOP Education (Aberdeen) Ltd to disburse the notified surplus of £908,991 from financial year 2023/24 to one or more nominated charities of NYOP.

2.6 Taxation Recommendations

2.6.1 Acknowledge that the Local Government Settlement for 2025/26 contains no conditions on the setting of Council Tax;

2.6.2 Note, that in line with the MTFS, the Chief Officer – Finance had previously recommended a real terms increase in the rate of Council Tax equivalent to 7% for 2025/26. The Chief Officer – Finance further recommends that consideration must be given to exercising discretion over Council Tax to address the unexpected cost pressures and financial risks described in the report.

2.6.3 Note that an additional increase of c.4% would generate sufficient funding to meet the additional costs from the IJB 'upside' scenario (£2.5m) and the shortfall in funding for ENIC costs (£3m);

2.6.4 Approve a Band D equivalent Council Tax rate of up to £1,653.40 (11% increase), with effect from 1 April 2025;

2.6.5 Impose and levy Council Tax assessments for the period 1 April 2025 to 31 March 2026 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 2025;

2.6.7 Approve an Empty Property Relief Scheme for Aberdeen City with effect from 1 April 2025, as set out from paragraphs 5.29;

2.6.8 Impose and levy Non-Domestic Rates assessments for the period 1 April 2025 to 31 March 2026 on all occupiers in Aberdeen City to be paid by those liable; and

2.6.9 Note that the Finance and Resources Committee, 12 February 2025, approved that wider consultation would now be undertaken on the introduction of a Visitor Levy in Aberdeen. Instruct the Chief Officer – Finance to incorporate the forecast financial implications into the Medium Term Financial Strategy as appropriate.

2.7 Integrated Impact Assessments

2.7.1 Consider the IIAs prepared by officers which reflect the findings from Phase 1 and 2 of the public engagement on the budget, including face to face and targeted sessions 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 2025/26; and

2.7.2 Thank all the members of the public that took the time and made the effort to participate and engage in our public consultations during 2024.

2.8 Common Good Budget 2025/26

2.8.1 Consider and approve the Common Good Budget 2025/26 report recommendations, which are as follow:

2.8.1.1 Approve the Common Good budget for 2025/26 as detailed in Appendix 1 [of the report];

2.8.1.2 Consider and decide on each of the new requests for funding detailed in Appendix 3 [of the report], taking account of the affordable funding available for 2025/26;

2.8.1.3 Note the inclusion of the tiered trend analysis of the Common Good Budget 2025/26; and

2.8.1.4 Note the review of the Common Good Investment Strategy and approve the continuation of the Multi Asset Income Fund investment and planned actions to maintain oversight of the investment performance.

2.8.2 Recognise the inextricable link between the General Fund and the Common Good, and approve the inclusion of the Common Good budget, in future, as an Appendix to the General Fund budget report.

2.9 <u>Carbon Budget 2025/26</u>

2.9.1 Consider and approve the Carbon Budget 2025/26 report recommendations, which are as follow:

2.9.1.1 Approve the Council Carbon Budget 2025/26 including carbon target for 2025/26 of 22,567 tonnes of carbon dioxide equivalent (tCO2e) and note the provisional 5 year carbon budget forecast to 2029/30;

2.9.1.2 Instruct the Chief Officer - Strategic Place Planning to update the carbon budget forecast position, where required, following publication of UK Government Greenhouse Gas reporting conversion factors June 2025;

2.9.1.3 Note the indicative Function/ Cluster carbon budget allocation, as attached at Appendix A [of the report];

2.9.1.4 Instruct the Chief Officer - Strategic Place Planning to liaise with relevant Chief Officers, on any realignment of carbon budget allocations required by changes to legislation, services, operations, targets and plan-making ahead of the 2026 Council Carbon Budget;

2.9.1.5 Note the national policy changes emerging over this 5 year period (paragraphs 3.13 - 3.17 [of the report]) relevant to carbon budget data, methodology and achievable savings;

2.9.1.6 Instruct the Chief Officer – Capital, following approval of the budget in March, to ensure any new projects being put forward to the capital programme include information on the expected operational carbon impact of the development.

3. FINANCIAL RESILIENCE OF COUNCIL

3.1 It has never been as important to be financially resilience as it is now.

3.2 This is because Council finances are under pressure from new and enduring financial risks. The Budget Protocol and Budget Update report to Council [CORS/24/357] and the quarter 3 financial performance report to Finance and Resources Committee [CORS/25/036] drew attention to the key ones.

3.3 It is even more important that the Council remain vigilant and pro-active in the management of these financial risks, ensuring that the Council is prepared to address what is continuing to be a very volatile and complex financial environment.

3.4 Therefore, in the context of setting the 2025/26 Budget it is particularly important to identify and incorporate plans to mitigating those risks. The following paragraphs draw out the main implications for the Council arising from risks that include the Aberdeen City IJB financial forecasts, employer National Insurance Contribution increases and the shortfall in funding, pay and inflationary environment and ongoing need and demand for Council services, particularly in children services and homelessness.

Aberdeen City Integration Joint Board (IJB)

3.5 On the basis that the IJB is expected to seek additional funding from the Council (and NHS Grampian) for 2024/25 to balance its accounts, there is now a major risk that the Council will be required to fund a significant deficit in the IJB for 2025/26 too.

3.6 With no available reserves to rely on after 31 March 2025, and an underlying cost of service that is higher than budget moving into 2025/26 two things need to be considered by the IJB. (i) how it saves money to reduce expenditure and (ii) what opportunities exist for an increase in the income that is receivable.

3.7 The drivers for expenditure include inflationary pressures and demand pressures. An extract from the Aberdeen City IJB Quarter 2 financial performance report stated that cost pressures are attributable to a variety of matters, "…some of which were highlighted as risks in the Q1 Monitoring report to the Risk, Audit and Performance Committee in September 2024". Those pressures include:

a) The full year impact of inflationary pressures;
b) Reduction of in-year funding allocations below assumed levels;
c) Implementation of health and care staffing legislation;
d) National Care Home Contract Rate (NCHCR) (Nursing Care) 2.5% increase above budget assumptions (NCHCR for residential care still to be determined);
e) National focus on reducing the extent of delayed discharges from hospitals, without additional funding;
f) Significant and sustained demand for social care services where need is 'high' or 'urgent';
g) Unplanned Out of Area Placement;
h) Care packages for children transitioning to adults higher than anticipated;
i) Loss of income from Aberdeenshire HSCP at Step Down Facility;
j) Premises costs beyond budget; and
k) Increased costs for equipment to meet increased demand for people living at home.

3.8 In the context of current spending levels and the pressure described above, in the first instance the IJB will meet in March to consider its budget. This will consider where savings are to be made, whether additional income can be secured from Partners (the council and NHS Grampian), or a mixture of both.

3.9 The Council agreed to scenario planning being carried out to scope the potential financial exposure that Partners might have in the year ahead. These scenarios have been based on most recent, Quarter 3, data and analysis and on an Upside, Downside, Central scenario basis, the following should be considered carefully in setting the Council budget for 2025/26.

2025/26 Scenario	IJB Total Underlying Funding Requirement £'000	ACC approximate share (40%) £'000	2025/26 ACC Funding Options	NHS approximate share (60%) £'000
Upside	6,250	**2,500**	**In-year Revenue Budget allocated** – Council Tax increase or Savings Options agreed.	3,750
Central	12,500	**5,000**	**In-year Revenue Budget allocated** – Council Tax increase or Savings Options agreed; and Earmarked Reserves set aside.	7,500
Downside	18,750	**7,500**	**In-year Revenue Budget allocated** – Council Tax increase or Savings Options agreed; and Earmarked Reserves set aside.	11,250

3.10 The Council provides approximately 40% of the underlying core funding that the IJB has at present, therefore any consideration of funding increases should take this into account. The Integration Scheme determines that funding proportionality is the basis on which any financial deficit will be split between the two partners, NHS Grampian responsible for approximately 60%.

3.11 The Council needs to actively prepare and provide for the above scenarios, but it should recognise the huge challenge that the IJB has to balance its budget. Ultimately the Council (and NHS Grampian) may have to fund a position that is different from what is planned. The greater the preparation on a recurring basis the greater the resilience the finances of the Council will be.

5.12 The Council should give careful consideration to the scenarios above, and recognise that Aberdeen City IJB achieving a balanced position is not likely in 2025/26, with the upside or best expected being a deficit of around £6.25m, after the delivery of significant in-year savings. The Council must therefore be prepared in its budget to address at least this scenario, while at the same time it should recognise the huge challenge that the IJB has to balance its budget.

3.13 Ultimately the Council (and NHS Grampian) may have to fund a position that is different from what is planned. The greater the preparation on a recurring basis the greater the resilience the finances of the Council will be.

Pay and Employer National Insurance Contributions

3.14 Since the Council (11 December 2024) agreed to prepare the budget for 2025/26 on the basis of full funding being received for the cost of increased Employer National Insurance Contributions (ENIC) from April 2025, the position has become clearer.

3.15 During Stage 1 of the Scottish Budget Bill the Cabinet Secretary for Finance stated that £144m was being distributed to support Local Authorities with the cost of Employer NIC, which represented approximately 60% of the directly employed staff costs that will be faced. The shortfall for the Council is £3m for 2025/26.

3.16 There is no funding being made available to fund the Employer NIC costs for commissioned services. While an inflationary provision for contracts has been built into the budget model, the actual expenditure is likely to challenge those assumptions, particularly where the service is delivered substantially by people and the provider has no other means of recovering the cost other than to pass it on to the purchaser, i.e. the Council. It has been estimated this could amount to approximately £5m per annum.

3.17 The consequence is that, while it is clear that full funding for the Employer NIC costs is essential, it is now certain the funding will not match the costs and the Council needs to be prepared to address that.

3.18 Addressing this on a recurring basis is essential given the recurring nature of the NIC costs. It is not possible to have one-off funding supporting such a substantial and statutory cost.

3.19 The ENIC scenarios that can be summarised from this are as follows:

2025/26 Scenario	ENIC Funding Required £'000	Description	2025/26 Funding Options
Upside	3,000	Directly Employed Staff	**In-year Revenue Budget allocated** – Council Tax increase or Savings Options agreed.
Central	5,500	Directly Employed Staff; & Partial Impact on Contracts/Agreements	**In-year Revenue Budget allocated** – Council Tax increase or Savings Options agreed; and Earmarked Reserves set aside.
Downside	8,000	Directly Employed Staff; & Significant Impact on Contracts/Agreements	**In-year Revenue Budget allocated** – Council Tax increase or Savings Options agreed; and Earmarked Reserves set aside.

3.20 Local Government has experienced very challenging pay negotiations in the last three years that has added significant cost to the pay bill, in part funded by Scottish Government. The pay award claims from unions for 2025/26 will no doubt challenge the financial resources of Local Government again, with 3% provided for within the budget model.

3.21 Reduction of the pay bill is something that the Council has tried to achieve through voluntary means over the last few years, including reducing external recruitment and encouraging current employees to seek out work in the roles that the Council has growing demand or highest priority for. The Voluntary Severance and Early Retirement (VSER) scheme remains in operation and has enabled hundreds of people to leave the Council creating a multi-million pound annual saving.

Price Inflation / Supply Chain Volatility

3.22 A combination of factors 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. Add the increases to Employer National Insurance Contributions and these will likely push prices up at greater pace from April 2025.

3.23 In the last three 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 middle of June 2024, the rate had reduced to 2.0%, the Bank of England long-term target. Since then however the rate has crept up, ending 2024 at 2.5%.

Financial Resilience Framework

3.24 Financial resilience in the Council remains crucial for the successful continuation of the Council and delivery of the wide range of services it needs to carry out. To assist, the Council has 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 2023/24, see Appendix 2.

3.26 Availability of resources: The Council had a strong position in terms of usable reserves and working capital at the end of March 2024, despite the financial climate in which it is operating, and maintained an appropriate value of uncommitted reserves, in line with Council approvals. The council has approved the use of some of its reserves to balance the budget in 2024/25.

3.27 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.

3.28 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.

3.29 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 2025/26, it is worth a brief re-cap on the financial outlook for the financial year.

2024/25 Balance Sheet Position

4.2 The position as at 31 March 2024 per the audited 2023/24 accounts showed the Council was worth £1.3 billion. The projected balance sheet position at 31 March 2025 is shown in Appendix 1 and estimates the net worth of the Council will be maintained around £1.4 billion by the end of the year. The projected position excludes any 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 2025.

2024/25 Revenue Position

4.3 At its meeting on 12 February 2025, the Finance & Resources Committee considered the Council's Quarter 3 Financial Performance report.

4.4 That report highlighted the continuing challenges and risks facing the Council that includes global, national, and local conditions.

4.5 Based on the known financial parameters and assumptions, including receiving additional funding from the Scottish Government in-year to implement the national pay award, the Council is expected to report a balanced budget for 2024/25, but is subject to the following emerging situation.

4.6 In the Quarter 2 Financial Performance Report in November 2024 it was highlighted that there is more financial pressure on the Aberdeen City IJB such that there a risk IJB reserves would not be sufficient to balance the forecast overspend.

4.7 At Quarter 3 that narrative has strengthened and the forecast overspend now reported to the Board, confirms it will require to use all its available reserves this year, that will result in a requirement for both partners (the Council and NHS Grampian) to provide additional funding to balance the books. The share that the Council is preparing to have to contribute is around £4m, however that is subject the actual year end position.

4.8 The Council will have to find this funding from within its own year-end position, where, for example, savings have been greater than forecast or the remainder of the in-year contingency remains unused. However, ultimately Council Reserves will have to be used if there is no opportunity to cover this cost from elsewhere.

5. ANNUAL GENERAL FUND REVENUE BUDGET FOR 2025/26

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 2025/26

5.2 The total funding package received for the 2025/26[1] financial year is £491.5m (£468.8m 2024/25[2]). At face value this represents an increase in grant funding of £22.7m or 4.8% from 2024/25.

5.3 These values must be adjusted to ensure comparability, for 2025/26, taking account of any funds not yet distributed, and for 2024/25, taking account of one-off funding for 2024/25 and adjustments made for capital funding provided instead of revenue funding.

5.4 Having adjusted for these the increase that is included in the 2025/26 funding package is £18.9m, or 4.0%. This increase is represented by new funding, some of which has conditions, and other funding that does not. The main differences are included in the table below:

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[1] 2025/26 values taken from Finance Circular 10/2024, which was published on 12 December 2024.

[2] 2024/25 values taken from Finance Circular 10/2024, which was published on 12 December 2024, inclusive of in-year redeterminations for 2024/25.

Funding Announced for Scotland:	Impact for ACC:
Additional General Revenue Grant of £289 million to support local priorities	An additional £7.000m for services; no restrictions on use.
An additional £15 million to support the expansion of Free School Meals	£0.440m to fund the changes in eligibility. Revenue funding only.
£125 million for adult social care workers in commissioned services	£4.647m to be passported to IJB
£10 million to support provision of Free Personal and Nursing care	£0.386m to be passported to IJB
An additional £9.7 million to improve pay for early learning and childcare workers	£0.350m to fund increased payments to providers.
An additional £41 million investment to maintain or restore teacher numbers to 2023 levels	Not yet distributed for 2025/26, estimated £1.400m to support school budgets and rising / raised school rolls.
An additional £28 million for additional support for learning	Not yet distributed for 2025/26, estimated £0.900m to support ASN growth in budget model.
£33 million to support development of people working in children's social work	£1.202m to fund increased development work.
Total Impact	**£16.325m**

5.5 The difference of £2.575m is made up of adjustments included with the distribution formula, for example 'the floor', in 2025/26 the Council will contribute £1.4m less than it did in 2024/25.

5.6 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 2025/26 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 at 2023 levels;
- 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.

5.7 There are no conditions on the decision that the Council can make in relation to Council Tax.

5.8 The settlement places obligations / conditions on the Council, as noted above, 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 2025/26 this includes additional funding for pay (Real Living Wage increase), and there is funding for an inflationary uplift in free personal and nursing care payments. The impact is an increase of £5.033m in grant to be provided to the IJB.

5.9 Similar to recent years, 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.

Other Material Changes

5.10 Beyond the Scottish Government Settlement there have been other adjustments applied to the Medium Term Financial Strategy, and specifically the budget model for 2025/26.

5.11 The Council has been notified by DEFRA (Department for Environment, Food and Rural Affairs) that during 2025/26 there will be a new income stream to the Council that reflects the new responsibilities on producers of waste products to pay for the treatment of those products at the end of their use. At present the Council has been provided an estimated income however this is subject to adjustment and refinement, with initial payments not due to Councils until November 2025.

5.12 Having considered the information provided by DEFRA and discussed the current obligations to ensure that the waste service is meeting the obligations for an efficient and effective services, my judgement is that £3.2m of additional income can be included in the budget model for 2025/26.

5.13 The Scottish Government has not made any adjustment to the 2025/26 Local Government Settlement to account for this additional income stream to Councils. It is not yet clear what the position will be in 2026/27 however I will be watching the situation carefully, alongside the experience we gain from this first year of operation of the scheme.

5.14 During the third quarter, the Extended Corporate Management Team has continued to look at financial performance during the current year and identified a number of budget adjustments that can be applied to 2025/26 without the need for further decisions to be take. The impact of these changes is £3m.

Impact on the 2025/26 Annual Budget and Medium Term Financial Strategy

5.15 Following the analysis of the Local Government Settlement for 2025/26 and the other adjustments noted above the 2025/26 financial model for the Council has been updated.

5.16 The risk analysis arising from the Aberdeen City IJB and the Employer National Insurance Contribution increases, in my view are most successfully tackled in the budget by increasing income, and Council Tax in particular, which is recurring in nature, deliverable and is a lower risk than taking multiple smaller value savings options. That said it does not come without implications for Council Tax payers.

5.17 A summary of the impact on Council Tax that the risk scenarios described in Section 3 above, is shown in the table below:

2025/26		Upside £'000	Central £'000	Downside £'000
Revised MTFS Budget Baseline Gap		**12,553**	**12,553**	**12,553**
Risk Area	**Description**			
Employer NIC	Directly Employed Staff	3,000	-	-
Employer NIC	Directly Employed and Part contracts/service providers	-	5,500	-
Employer NIC	Directly Employed and Significant contracts/svc providers	-	-	8,000
IJB Deficit	High level of savings achieved	2,500	-	-
IJB Deficit	Medium level of savings achieved	-	5,000	-
IJB Deficit	Low level of savings achieved	-	-	7,500
Potential Budget Gap		**18,053**	**23,053**	**28,053**
Increase from MTFS		**5,500**	**10,500**	**15,500**
Potential Additional Impact on Council Tax		**3.9%**	**7.5%**	**11.1%**

5.18 Taking an optimistic approach to these scenarios and with an emphasis on Council Tax income being a solution, the previous assumption that Council Tax should rise by 7% has been revised to 11% for 2025/26. This has been incorporated into the final budget model for 2025/26:

General Fund	Actual 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
City Regeneration & Environment	30,235	36,799	41,919	44,456	46,411	48,405
Corporate Services	43,487	46,140	45,738	44,444	45,213	47,012
Familiies & Communities	307,384	340,694	345,583	349,468	355,921	358,821
Integrated Joint Board	121,932	136,463	136,463	136,463	136,463	136,463
Corporate	104,429	104,759	114,957	122,549	128,621	130,282
Net Expenditure	**607,467**	**664,855**	**684,661**	**697,380**	**712,630**	**720,984**
Funded By						
General Revenue Grant	(252,057)	(309,025)	(309,025)	(309,025)	(309,025)	(309,025)
NNDR	(208,113)	(200,361)	(200,361)	(200,361)	(200,361)	(200,361)
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)
Core Funding	**(607,467)**	**(652,302)**	**(655,601)**	**(656,575)**	**(657,290)**	**(657,829)**
Net Position (MTFS Central Scenario)	**0**	**12,553**	**29,060**	**40,805**	**55,340**	**63,155**
Financial Risks:						
Impact of 60% Funding for NIC in 25/26 - recurring		3,000	3,000	3,000	3,000	3,000
Impact of funding IJB Upside Scenarios in 25/26 - recurring		2,500	2,500	2,500	2,500	2,500
Net Position (inc. Upside Risk Scenarios)	**0**	**18,053**	**34,560**	**46,305**	**60,840**	**68,655**
Impact of Council Tax Increase:		**11.0%**	**6.0%**	**5.0%**	**5.0%**	**5.0%**
Council Tax real terms increase annually - recurring		(15,370)	(24,743)	(33,050)	(41,799)	(51,013)
Updated Net Impact on General Fund		**2,683**	**9,817**	**13,255**	**19,041**	**17,641**
Impact of Recommissioning in 25/26 - recurring		(19,801)	(19,801)	(19,801)	(19,801)	(19,801)
Impact of Recommissioning in 25/26 - non-recurring		(909)	0	0	0	0
Potential General Fund Position		**(18,027)**	**(9,984)**	**(6,546)**	**(760)**	**(2,160)**
Annual Gap between Income and Expenditure		(18,027)	(9,984)	(6,546)	(760)	(2,160)

5.19 The table above draws attention to the total budget gap in 2025/26 of £18.1m. It also shows the impact of balancing the budget in 2025/26 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.

5.20 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 recurring which means that once delivered they will impact positively on the gap between future income and expenditure, reducing the budget gap in years 2026/27 and beyond.

5.21 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 remain in balance until 2029/30 (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.

5.22 The Council, setting its budget for 2024/25 made decisions to make limited use of one-off funding, for example, the main one being to direct NYOP to distribute profits they had generated from 2022/23 to Sport Aberdeen enabling the Council to reduce 2024/25 funding from the General Fund. While there is a further opportunity to direct surpluses from NYOP this year it is not guaranteed annually 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 2025/26 the Council has unwound £1.2m of one-off funding used in 2024/25.

5.23 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.

5.24 As mentioned above, in section 3, there are very specific new financial pressures that have not been taken account of in the budget model, at 5.15 above. These are Aberdeen City IJB and Employer National Insurance contributions and are expanded on in the following paragraphs.

<u>Taxation Powers : Non-Domestic Rates</u>

5.25 The Distributable Amount of Non-Domestic Rates Income for 2025-26 has been provisionally set at £3,114 million. This figure uses the latest forecast of net income from non-domestic rates in 2025-26 and also draws on council estimates of the amounts they will contribute to the Non-Domestic Rating Account (the 'Pool') in 2024-25. 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 2025/26 will be £200m (2024/25 £208m).

5.26 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.

5.27 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 55.4 pence and 56.8 pence respectively.

5.28 The Scottish Budget 2025/26 introduces a range of changes to existing reliefs and a number of transitional reliefs, which are detailed in the Local Government Settlement, Finance Circular 10/2024.

Aberdeen City Council Empty Property Relief Scheme

5.29 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.

5.30 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, remove relief for all categories except the 100% relief applied to properties where the owner or tenant company has entered insolvency.	
This scheme does not apply to periods prior to 1 April 2024.	
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	0%
Non-Industrial Properties e.g. shops, offices, retail warehouses where the whole or main use is non-industrial.	0%
Historic/Listed	0%
Rateable Value is less than £1,700	0%
Serious Fire Flood Incapable of Occupation	0%
Vacant Ground	0%
Executor	0%
Insolvency	100%, unlimited period

5.31 As at February 2025 there were 922 properties in receipt of relief under the scheme, with a combined value of relief of £1.1m. The Scheme has been changed in each of the last two years, there are no options to achieve a further cost reduction to the Council. Options to positively change the Empty Property Relief Scheme, or to introduce a specific local relief scheme under the Community Empowerment (Scotland) Act 2015, would require additional funding to be made available through the budget setting process and a scheme to be developed.

5.32 The Council is required to confirm the scheme that will apply from 1 April 2025.

Taxation Powers: Council Tax

5.33 Council Tax income is the largest single income stream that the Council determines the value of and retains the full benefit of. From 2022/23 – 2023/24 the Council had the ability to set a rate of its choice and in financial year 2024/25 the Scottish Government offered grant funding to enable Councils to freeze Council Tax for 2024/25.

5.34 The Medium Term Financial Strategy (MTFS), 2024, 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.

5.35 The 2025/26 Local Government Financial Settlement, announced in December 2024, confirmed that there would be no conditions applied to Council Tax for 2025/26.

5.36 In line with the MTFS and previous recommendations the Chief Officer – Finance had considered all aspects of the financial environment and had assumed for financial modelling purposes an increase in the rate of Council Tax equivalent to 7% in 2025/26, which would generate approximately £9.8m of additional income. The Chief Officer – Finance now recommends that this should be raised further to address the unexpected cost pressure and financial risks described earlier in the report. A further increase of c.4% would generate sufficient funding to meet the IJB ‘upside’ scenario (£2.5m) and the shortfall in funding for employer NIC Costs (£3m).

5.37 The Council in considering the options for balancing the 2025/26 budget is recommended to approve an increase in the rate of Council Tax, as per the principles agreed in the MTFS, 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 2024/25, 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 £1.122m.

5.38 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	2024/25 Council Tax	Indicative 2025/26 Charge if percentage increase applied									
		0.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%	11.00%	12.00%	13.00%
Band A	£ 993.03	£ 993.03	£ 1,042.69	£ 1,052.62	£ 1,062.55	£ 1,072.48	£ 1,082.41	£ 1,092.34	£ 1,102.27	£ 1,112.20	£ 1,122.13
Band B	£ 1,158.54	£ 1,158.54	£ 1,216.47	£ 1,228.05	£ 1,239.64	£ 1,251.22	£ 1,262.81	£ 1,274.39	£ 1,285.98	£ 1,297.56	£ 1,309.15
Band C	£ 1,324.04	£ 1,324.04	£ 1,390.25	£ 1,403.49	£ 1,416.73	£ 1,429.97	£ 1,443.21	£ 1,456.45	£ 1,469.69	£ 1,482.93	£ 1,496.17
Band D	**£ 1,489.55**	**£ 1,489.55**	**£ 1,564.03**	**£ 1,578.92**	**£ 1,593.82**	**£ 1,608.71**	**£ 1,623.61**	**£ 1,638.51**	**£ 1,653.40**	**£ 1,668.30**	**£ 1,683.19**
Band E	£ 1,957.10	£ 1,957.10	£ 2,054.96	£ 2,074.53	£ 2,094.10	£ 2,113.67	£ 2,133.24	£ 2,152.81	£ 2,172.38	£ 2,191.96	£ 2,211.53
Band F	£ 2,420.52	£ 2,420.52	£ 2,541.54	£ 2,565.75	£ 2,589.96	£ 2,614.16	£ 2,638.37	£ 2,662.57	£ 2,686.78	£ 2,710.98	£ 2,735.19
Band G	£ 2,917.04	£ 2,917.04	£ 3,062.89	£ 3,092.06	£ 3,121.23	£ 3,150.40	£ 3,179.57	£ 3,208.74	£ 3,237.91	£ 3,267.08	£ 3,296.25
Band H	£ 3,649.40	£ 3,649.40	£ 3,831.87	£ 3,868.36	£ 3,904.86	£ 3,941.35	£ 3,977.84	£ 4,014.34	£ 4,050.83	£ 4,087.33	£ 4,123.82
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	£'000	£'000
Collectable	139,727	-	6,986	8,384	9,781	11,178	12,575	13,973	15,370	16,767	18,165

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

Service Income

5.40 Fees and Charges: Fees and charges raised locally enable the Council to fund some of the services it provides. While some income streams remain depressed post-Covid, 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 2025/26.

5.41 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

5.42 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 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 2025/26; and must also set out a Non-Domestic Rate Empty Property Relief scheme, both with effect from 1 April 2025. Additionally the Council must approve funding award through the Cultural Investment Framework.

Referrals from Committee – items not included in the financial model

5.43 Appendix 10 provides details of items that have not been included in the financial model for 2025/26 revenue figures.

5.44 Following the approval of the Cultural Investment Framework in August 2024 CR&E/24/214] Appendix 14 provides the outcomes and recommendations of the applications and funding awards that are suggested for 2025/26. This includes an indicative value for two further years.

5.45 It should be noted that Aberdeen Performing Arts has applied through the Cultural Investment Framework so has been removed from the ALEO funding model and recommendations.

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:

<u>Sport Aberdeen</u> 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.
<u>Aberdeen Sports Village</u> 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.
<u>Aberdeen City Health and Social Care Partnership Integration Joint Board (IJB)</u> 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.
<u>Bon Accord Care (BAC)</u> Bon Accord Care and Bon Accord Support Services are subsidiaries and are commissioned 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.
<u>Grampian Valuation Joint Board (GVJB)</u> 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. APA has applied to, and is included in the Cultural Investment Framework recommendations for 2025/26.

Funding Approach

6.3 As a consequence of the continuing challenges set out in the MTFS, and the anticipated levels of grant funding that the Council will receive in 2025/26, Council Officers, in preparation for the public engagement exercises earlier this year, considered the possible options that could be applied in the years ahead. Discussion with the ALEOs (Sport Aberdeen, Aberdeen Sports Village and Aberdeen Performing Arts) has centred on funding reduction scenarios of 10%, 20% and 30%. Budget consultation exercises during 2024/25 have sought views on funding reductions to these ALEOs.

6.4 The Health and Social Care Partnership IJB and the Grampian Valuation Joint Board (GVJB) have different legal constructs and therefore have 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 31 January 2025.

6.5 The IJB meets on 18 March 2025 to consider its 2025/26 financial position and medium-term financial strategy. The Council will note the financial scenarios included earlier in the report.

6.6 During 2024/25 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 - £0.350m. Additional funding for 2025/26, so far, in the Council's General Revenue Grant that must be paid over to the IJB amounts to £5.033m, for an uplift in the cost of the Real Living Wage in commissioned services and the value of free personal and nursing care allowances.

6.7 The Council would intend to fund the IJB with a proportionate share of Employer National Insurance Contributions for 2025/26 on a recurring basis, i.e. 60% of the estimated cost of Council employees, which is £0.505m. The additional funding is estimated to amount to £0.303m. 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

6.8 The table below provides details of the funding levels currently included in the 2025/26 draft budget for these organisations, along with the values as presented by officers as part of the redesign plans for 2025/26:

Organisation	Funding 2024/25 £m	Budget Proposal 2025/26 £m	Funding Change from 2024/25 £m	Funding Change from 2024/25 %
Sport Aberdeen (S)	4.595	4.136	(0.460)	(10.0%)
Aberdeen Sport Village (JV) – (contract year 1 Aug to 31 Jul)	0.624	0.592	(0.31)	(5.0%)
Health & Social Care Partnership Integration Joint Board (JV)	130.925	136.261	5.336	4.1%
Bon Accord Care (S)	Aberdeen City IJB will decide 2025/26 funding			
Grampian Valuation Joint Board (A)	1.947	2.093	0.146	7.5%
(S) = Subsidiary; (JV) = Joint Venture; (A) = Associate				

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 2025/26 (Finance Circular No. 10/2024) dated 12 December 2024. The General Capital Grant for 2025/26 is £21.0m, 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 2025/26 is an increase of £4m (23%) on a like for like basis with 2024/25.

7.3 In relative terms, 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

7.4 Capital expenditure programme presented by Officers in this report amounts, over the next five years, to £690.9m (including forecast reprofiling of unspent budgets in 2024/25), with associated funding, excluding borrowing, of £151.1m. The balance of £539.8m will require to be funded by borrowing. The approximate revenue cost of servicing this level of borrowing will be £32m per annum by 2029/30, subject to the full deployment of the capital expenditure as profiled.

7.5 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.

7.6 Construction inflation and supply chain challenges have added cost to the delivery of capital projects in the past four or five years, 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

7.7 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 Agreement[3].

7.8 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.

7.9 As noted in the last two years, 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. 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

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

7.11 Other focal points for the programme include the School Estate, noting that the Hazlehead / Countesswells Secondary school is 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.

7.12 Furthermore there remains substantial funding in respect of Aberdeen, the place, projects that cover transport infrastructure, the city centre and the beach.

7.13 The General Fund Capital Programme for 2025/26 to 2029/30 (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:

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

- 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.

7.14 Projects in both of these sections still have business case gateways to complete. The Chief Officer – Capital has engaged project managers on the latest position with each project and reprofiled the capital programme to reflect the latest information, including forecasting the impact of underspending in 2024/25 on 2025/26 to 2029/30.

7.15 It should be noted that the Chief Officer – Capital is retiring early in financial year 2025/26 and the Executive Director is now preparing for the recruitment of a new Chief Officer. This is a restricted matter for Council, to establish an Appointment Panel (TOR, Aberdeen City Council, Number 16.) and therefore an instruction is included in the recommendations of this report.

<u>Referrals to the Budget Process</u>

7.16 A limited number of capital projects have been brought forward for consideration as part of the budget setting process, with instructions given to Officers 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 2025 £m**	**Assumed (Use) / Contribution to Reserves 2025/26 £m**	**Projected Balance at 31 March 2026 £m**
General Fund:			
Earmarked	69.171	(12.723)	56.448
Uncommitted	12.153	0.000	12.153
Housing Revenue Account:			
Earmarked	5.969	0.992	6.961
Uncommitted	4.260	(0.792)	3.468
Statutory Funds:			
Capital Fund	33.454	(13.000)	20.454
Insurance Fund	2.727	0.000	2.727
City Improvement Fund	0.336	0.002	0.338
Restricted Funds:			
Capital Grants & Receipts Unapplied	0.000	0.000	0.000
Total	**128.070**	**(25.521)**	**102.549**

8.2 It should be noted that the projected balances in Reserves at 31 March 2025 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.

8.3 Use of the General Fund reserves in 2025/26 is 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 One specific Reserves that should be noted is the Capital Fund, a statutory fund that can only be used for particular purposes. During the year the Council has determined that it should engage with owners of former Council homes that are affected by RAAC (Reinforce Autoclaved Aerated Concrete). Following a review of the costs involved, the nature of the transaction and the future use of the properties the Chief Officer – Finance has determined having considered proper accounting practice that the costs will have to be transacted as Revenue Expenditure for accounting purposes and that they will be the sole responsibility of the General Fund.

8.5 This judgement is based on any properties being acquired will be demolished, they will therefore not be relet following acquisition and there will no underlying value following the transaction. Land value may be something that can be considered in the future, however the redevelopment of the land on which the RAAC affected properties currently stand is yet to have a master planning exercise undertaken and therefore the identification of the options for redevelopment have yet to be determined.

8.6 This leave the General Fund with a funding challenge as the continued voluntary acquisition process is progressed. The Chief Officer – Finance recommends that the funding solution is enabled by the Capital Fund. This Fund is only permitted by statute[4] to use its resources to fund Capital Expenditure or the cost of Debt Principal repayments. By using the value that is already in the Capital Fund to fund the cost of the debt principal in the General Fund (and/or the Housing Revenue Account) a new funding stream can be accessed that would enable the additional costs associated with the acquisition of RAAC affected properties to be paid for. This mechanism to support the revenue budget is limited by value (of debt principal payable) and time (annually), therefore care will be required to meet the costs involved as legal commitments arise.

8.7 The alternative, to this funding solution, for RAAC affected properties is that General Fund Revenue Budgets would have to be updated to allow for the additional expenditure to be funded by the budget. Council, 17 February 2025 considered a report [F&C/25/030] that estimated a cost of £12.75m will be required to pay for the acquisitions and related costs, before demolition is factored in.

8.8 Lowering reserves reduce the Council's financial resilience and provide fewer opportunities to redirect or repurpose funding to support the unknown and

[4] Local Government (Scotland) Act 1975, section 22, 1(a)

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. Note the Financial Resilience content in Section 3 and Management of Risk, Section 12 for further information and analysis.

9. FINANCIAL IMPLICATIONS

9.1 The forecast level of useable reserves that the Council has at 31 March 2025 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 £12.1m, and due to the rising value of core funding, including Council Tax, it now only represents c.1.85% of annual net expenditure.

9.2 Savings options totalling at least £20.710m, plus the opportunity to increase Council Tax, are presented for consideration by Council.

9.3 Council must approve savings or income generation options of £18.1m, as detailed in the report above, such that a balanced budget is at least achieved, while taking 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 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. The Council is asked to consider this report alongside the General Fund Revenue and Capital budgets.

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 a 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.

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.	L	Yes
Operational	Demand pressures undermine budget assumptions on service delivery.	Budget modelling includes assumptions about demand and is based on current cost experience. Scottish Government funding announced to date for 2025/26 to take account of	M	Yes

		certain demand pressures, such as school rolls and additional support needs. Contingencies exist within the budget to manage variations in demand and cost.		
Financial	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.	Highlighting the known financial risks, scenario planning them and providing advice on options to address them will lead to a resilient budget. Use of the latest and most up to date information to calculate and shape the budget model and will continue to be refined. Recommendation for the Chief Officer - Finance to monitor the situation and report.	M	Yes
	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
			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.	L	Yes
	Insufficient funding streams to pay for voluntary severance costs that are assumed.	Creating the Service Concession earmarked reserve has provided a source for funds to be drawn down.	M	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.	Regular monitoring of financial data.		
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 (CORS/24/283)
Medium Term Financial Strategy 2024
Budget Protocol: Phase 2 Consultation and Budget Update (CORS/24/357)
Local government finance circulars - gov.scot
Local government finance circular 10/2024: settlement for 2025 to 2026 - gov.scot
Local government finance circular No. 2/2024: settlement for 2024-2025 - gov.scot
Search Integrated Impact Assessments | Aberdeen City Council

16. APPENDICES

Appendix 1 – Projected Balance Sheet as at 31 March 2025
Appendix 2 – Financial Resilience Framework 2024
Appendix 3 – Prudential Indicators
Appendix 4 – General Fund Capital Programme 2025/26 to 2029/30
Appendix 5 – Capital items referred to the budget process
Appendix 6 – Reserves Statement 2025
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
Appendix 14 – Cultural Investment Framework Funding Recommendations

17. REPORT AUTHOR CONTACT DETAILS

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