

ABERDEEN CITY COUNCIL

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| COMMITTEE | Finance & Resources |
| DATE | 5 November 2025 |
| EXEMPT | No |
| CONFIDENTIAL | No |
| REPORT TITLE | Medium Term Financial Strategy for the Council's General Fund, 2025 |
| REPORT NUMBER | CORS/25/239 |
| EXECUTIVE DIRECTOR | Andy Macdonald |
| CHIEF OFFICER | Jonathan Belford |
| REPORT AUTHOR | Scott Paterson |
| TERMS OF REFERENCE | 1.1; 2.1.5 |

1. PURPOSE OF REPORT

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

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Approve the Medium Term Financial Strategy for the General Fund, 2025;
- 2.2 Note that the Scottish Budget for 2026/27 has been announced as being presented to the Scottish Parliament on 13 January 2026;
- 2.3 Note that the Scottish Government published its latest Programme for Government in May 2025, followed by an updated Medium Term Financial Strategy in June 2025. This, in addition to the outcome of the Local Government Settlement for 2025/26 and information included in the previous MTFS from Scottish Government means the Central Scenario has been updated to expect a cash increase of 1% per annum in grant funding from the Scottish Government for future financial years. The Council's MTFS model will be updated for the Council's Budget meeting in March 2026 with details of the actual financial settlement for 2026/27;
- 2.4 Note that inflation remains above Bank of England target levels;
- 2.5 Note that the Capital Programme, as included in the Council Financial Performance Quarter 1, 2025/26 report (CORS/25/181), is the basis for capital financing costs and debt levels referred to in the MTFS;

- 2.6 Approve the Loans Fund Repayment Policy for 2026/27 and beyond as described in Table 5 of the MTFS;
- 2.7 Note the 2026/27 Budget will be discussed and set by the Council in March 2026 following a public engagement exercise as required by the Scheme of Governance and Budget Protocol, and that details of this consultation exercise are contained in 5.10 of the MTFS. The results of the engagement will also be reported to Council as part of the Budget setting reports;
- 2.8 Note that the Financial Resilience Framework shows that the General Fund has underlying resilience of £12m (uncommitted reserves) which is a falling percentage of the net General Fund budget. The aim is to move to a target range (2–3%) of Net Expenditure and review this annually based on risks and inflation. Therefore the Council should determine during the 2026/27 budget-setting process how this aim is addressed;
- 2.9 Note that the Financial Resilience Framework also identifies that the total value, and cost of servicing debt is rising. Careful consideration will have to be given to each and every capital project to ensure it fits with the Council's Strategic priorities, and delivers Best Value, as well as being affordable, sustainable, and prudent in compliance with the Prudential Code. The Council approved a cap on the cost of capital financing of 12% of Net Revenue Expenditure; and
- 2.10 Note that the Chief Officer – Finance will continue to develop the Financial Resilience Framework with a view to embedding it across the councils financial planning, financial monitoring, and financial year end reporting arrangements.

3. CURRENT SITUATION

- 3.1 The Council's MTFS 2024 was approved by the Finance & Resources Committee on Council on 5 November 2024, with the financial forecasts updated as part of the budget setting process for financial year 2025/26, approved in March 2025.
- 3.2 Having this overarching document is increasingly important in an environment that only seems to become more challenging and more complex, which has seen the effects of global events such as Russia's invasion of Ukraine and resulting war, and the supply chain volatility and energy price shocks. Although the sudden rise in inflation towards the end of 2022 was replaced by a long slow decline in rates throughout 2023, there has been a slight resurgence in inflation rates over summer 2025, and the prevailing rate remains above Bank of England targets. While the initial turbulence appears to be over, the cost of living crisis it created is persisting, with higher borrowing costs and higher prices leaves local government and public services with high demand and very limited funding.
- 3.3 The Scottish Government published its latest revised Medium Term Financial Strategy (SGMTFS) in June 2025, which followed the updated Programme for Government in May 2025. The updated Scottish Government Resources Spending Review is not expected until January 2026.

- 3.4 After taking account of the financial environment, the information provided by Scottish Government and the approved budget setting decisions for 2025/26 an updated Medium Term Financial Strategy for the Council's General Fund has been completed and is attached as Appendix 1.
- 3.5 The Target Operating Model (TOM1.2) [Council, August 2022, CUS/22/171 and Council, February 2024, CUS/24/043] presented the Council with a way forward to transform services and to contribute to closing the future budget gap. Programmes of work include eight on transformation of Council services and four that cut across the Council and our partners as part of our multi-agency transformation approach.
- 3.6 Together, the MTFS and TOM1.2 documents represent the fiscal framework for Aberdeen.
- 3.7 The MTFS provides the Council with an overview of the financial situation and how this is evolving in these uncertain times, and to consider how sensitive the financial situation is to changes in income and exposure to demand and inflation.
- 3.8 The strategy draws on a range of information and data and relies on scenario planning to express a range of financial consequences that will only become certain with actual experience and with more and better information over time.
- 3.9 Scenarios do allow us to develop the actions and activities needed to balance our finances, and a Central Scenario is presented alongside Upside and Downside Scenarios, giving us an insight into the spectrum of difficulty that the Council faces.
- 3.10 The strategy sets out a range of principles for income, expenditure and capital investment that are designed to support financial resilience and financial sustainability, and these are included at paragraphs 1.1 to 1.20 of the Strategy.
- 3.11 The question of financial resilience is one that continues to be very important to local government and greater emphasis is being placed on the test of 'going concern' than ever Local government is presumed to be a going concern, but this cannot be taken for granted.
- 3.12 The Council's **Financial Resilience Framework** was populated with information from the Council's Annual Accounts, for the five years up to 31 March 2024 and this has been updated to include the audited Annual Accounts for 2024/25. The information is therefore the cumulative effect of decisions taken over many years and does not by itself reflect what the future position may look like. I have made reference to the table at **6.36 of Appendix 1**, to whether the ratio appears to be stable or improving or if we should be watching it. The figures on their own provide information to provide assurance to the Council that the underlying strength of the finances are healthy given the volatile and high-cost environment we are working in, i.e. it has financial reserves on which to draw in the event of further financial shock, but that resource is finite and non-recurring.

- 3.13 It is acknowledged that the benefits from having this data are yet to be fully realised, with further work and comparison required. That said there is sufficient insight to highlight indicators that should be carefully considered when making budget decisions going forward.
- 3.14 I will again provide commentary and data as part of the 2026/27 budget setting process, and I will continue development work in conjunction with partners.

4. FINANCIAL IMPLICATIONS

- 4.1 The Medium Term Financial Strategy 2025 sets out the financial implications for the Council's General Fund and will be the financial parameters within which the annual budget setting process will be undertaken.
- 4.2 The budget engagement and consultation that the Council will undertake, as per the scheme of Governance and Budget Protocol, will use the Central Scenario presented by in the MTFS, which is a gap of £37.425m over the next two years, the end of the current Council term. This sits in the context of the whole five year MTFS which presents the financial challenge as follows:

| After Assumed Savings | Forecast 2025/26 | Forecast 2026/27 | Forecast 2027/28 | Forecast 2028/29 | Forecast 2029/30 | Forecast 2030/31 |
|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund Budget Gap | £M | £M | £M | £M | £M | £M |
| Downside Scenario | 0 | 48 | 96 | 143 | 184 | 227 |
| Central Scenario | 0 | 18 | 37 | 57 | 71 | 83 |
| Upside Scenario | 0 | 13 | 21 | 28 | 34 | 41 |

- 4.3 The various **assumed profiles of future Expenditure, Funding and Income levels** to produce these Scenarios are summarised in **Appendix 1, Section 3 - The Consolidated Medium-term Outlook for the General Fund**. These assumptions will continue to be reviewed, and updated as necessary, before the Council's Budget Meeting in March 2026.
- 4.4 Capital Funding and Investment is discussed in Appendix 1, Section 4, including the **Prudential Indicators** approved at the Council Budget meeting in March 2025:

| Capital Financing Requirement | | | | | | | |
|-------------------------------|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 2023/24 £'000 Actual | 2024/25 £'000 Estimate | 2025/26 £'000 Estimate | 2026/27 £'000 Estimate | 2027/28 £'000 Estimate | 2028/29 £'000 Estimate | 2029/30 £'000 Estimate |
| Gen Fund | 1,249,775 | 1,343,566 | 1,522,246 | 1,672,741 | 1,748,001 | 1,781,454 | 1,789,983 |

| Ratio of Financing Costs to Net Revenue Stream | | | | | | | |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2023/24 Actual | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate | 2029/30 Estimate |
| Gen Fund | 8.2% | 9.8% | 9.5% | 10.6% | 11.6% | 12.2% | 11.9% |

The cap on annual cost of capital financing as a percentage of the General Fund Net Expenditure remains at 12%.

5. LEGAL IMPLICATIONS

- 5.1 While there are no direct legal implications arising from the recommendations of this report, there are additional reporting requirements due to the London Stock Exchange listing, for example the requirement to notify them ahead of publication of the report.
- 5.2 The financial constraints that are now faced by local government sector and by the Council mean that serious questions have to be raised as to the affordability and sustainability of Council services and the scope, quantity, and quality of them going forward.
- 5.3 The Council has a statutory duty to set Council Tax and a balanced budget, and the Strategy sets out the related challenges and the parameters within which this will have to be done. Any failure to comply with this duty would leave the Council open to legal action and/or regulatory intervention.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 While there are no direct environmental implications from the recommendations in this report, the development of the MTFS must have a reference to the environmental objectives and targets that the Council has a duty to deliver on. Those duties come at a cost and where possible the scale of the challenge has been described, it is clear however that an enormous amount of further work is required in order to quantify the detailed proposals, business cases and funding solutions to meet of those duties.
- 6.2 The MTFS will continue to take account of the latest information in relation to our actions towards Net Zero as it is regularly refreshed, and the Council's annual Carbon Budget.

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 | Failure to recognise the consequence of the economic and local circumstance could lead to poor use of resources. | The Strategy is in place to look forward into the medium term and plan for the future to improve the likelihood of resource allocation being aligned to strategic outcomes. | L | Yes |

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| Compliance | Failure to set balanced budget. | A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March. | L | Yes |
| Operational | Failure to take account of the financial constraints described in the MTFS and to change operational arrangements to be affordable could lead to unplanned spending reductions. | A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March. | L | Yes |
| Financial | The assumptions are insufficiently sensitive to the situations that might arise, resulting in a larger financial challenge. | The strategy is based on scenarios that present a range of potential impacts for the Council's finances. It will be kept under review. Financial planning assumptions are subject to two reviews annually, the MTFS and the Annual Budget report. | M | Yes |
| Reputational | There is a risk that through the reduction of expenditure the Council may be criticised that spending is not in line with public expectation | The Council has continued to address priority spending areas, and to protect people. It is equally accountable for the use of public funds and to ensure that they are managed robustly. There are a wide range of unknown external factors that require to be balanced to deal | M | Yes |

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| | of service delivery. | with the current operating environment. Regular reporting during the year provides an ongoing description of the position the Council is in and the situations it faces. | | |
| Environment / Climate | Failure to take account of the long-term objectives in relation to our climate and the associated costs may lead to unexpected or unplanned expenditure. | The Council has put in place appropriate strategies to target the Net Zero objectives and continues to work on the long-term costs and affordability. The MTFS will continue to be updated to reflect the latest information. | M | Yes |

8. OUTCOMES

| <u>COUNCIL DELIVERY PLAN 2025-26</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>Local Outcome Improvement Plan</u> | |
| Prosperous Economy Stretch Outcomes | The Council continues to invest in front-line services across its statutory responsibilities as well as capital infrastructure. Investment in the city will have a positive impact on the economy. |
| Prosperous People Stretch Outcomes | Robust and effective management of the Council's finances will ensure that services can continue to be provided. |
| Prosperous Place Stretch Outcomes | Investment will enhance the place by creating a better and more vibrant city in which to live. |
| Community Empowerment Stretch Outcomes | The Council continues to engage with communities through the public consultation exercises for the budget process. |

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| Regional and City Strategies | As one of the Council's main Strategies, this update ensures continued alignment and integration with Regional Strategies, City Strategies and Council Strategies. |

9. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Integrated Impact Assessment | No assessment required. I confirm this has been discussed and agreed with Jonathan Belford, Chief Officer Finance on 29 September 2025. |
| Data Protection Impact Assessment | Not required. |
| Other | Not applicable |

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix 1 – Medium Term Financial Strategy for the Council's General Fund 2025

12. REPORT AUTHOR CONTACT DETAILS

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