MEDIUM TERM FINANCIAL STRATEGY FOR THE COUNCIL'S GENERAL FUND, 2025

ABERDEEN CITY COUNCIL

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A. EXECUTIVE SUMMARY

A.1 The Medium Term Financial Strategy (MTFS) aligns with CIPFA's Financial Management Code, Prudential and Treasury Management Codes, LASAAC reserves guidance, and the Accounts Commission's latest expectations on transparency, transformation and public engagement.

Key Features

- The MTFS sets a five-year framework to maintain financial sustainability while supporting the Council Delivery Plan and LOIP priorities.
- Based on current assumptions, the indicative 2026/27 budget gap ranges from £13m (upside) to £48m (downside), with a central scenario broadly in line with last year's forecast.
- The strategy is built on strong foundations: (1) disciplined medium-term planning and "golden rules"; (2) targeted transformation and demand management; (3) risk-based reserves and strong capital/treasury discipline.
- Compliance: the MTFS is explicitly aligned to CIPFA's FM Code and Prudential/Treasury Management Codes.
- Reserves: the changing value of money over time concludes that a move should be made from a fixed cash minimum (£12m) to a risk-based range of, for example 2%–3% of General Fund Net Expenditure, with need for a plan to be put in place to replenish those reserves if drawn upon.
- Capital: confirm the existing cap on financing costs at 12% of General Fund Net Expenditure and introduce the liability benchmark to evidence long-term affordability.
- Governance: quarterly reporting to Finance & Resources Committee, including updates to prudential indicators, and introduce in-year triggers; regularly review the Budget Protocol as part of the Scheme of Governance and public engagement timetable.

Key Financial Figures at a Glance

Indicator	Value/Range
5-Year Funding Gap (Central)	£83 million
2026/27 Budget Gap (range)	£13m (Upside) – £18m (Central) – £48m (Downside)
2025/26 Government Grant	£506 million
2025/26 Council Tax Increase	9.85%
General Fund Usable Reserves	£93 million (31 Mar 2025)
Minimum Uncommitted Reserve	£12 million
Capital Programme (2025-2030)	£759 million, per Appendix 1
Capital Financing Requirement	£1,522 million (2025/26) £1,790 million (2029/30)
Capital Financing Cost	£63 million (2025/26) £78 million (2029/30)

B. Purpose, scope and "golden rules"

B.1 The MTFS is the financial expression of the Council Delivery Plan. It provides the link from outcomes to resources, sets the parameters for annual budgets and in-year decisions, and explains how risks will be managed. The scope covers the General Fund revenue budget, links to the Capital Strategy, Treasury Management Strategy and Reserves Policy, and interfaces with the Health & Social Care Integration Joint Board (IJB).

Golden Rules

- Financial sustainability over the medium term: annual budgets must be balanced without structural reliance on one-off reserves; any planned use of reserves must be accompanied by a replenishment plan over the MTFS horizon.
- Maintain minimum value of uncommitted reserves (£12m); plan to move to retaining uncommitted reserves within an approved target range, for example 2%-3% of General Fund Net Expenditure and review the range annually based on risks and inflation.
- Affordability of capital and borrowing: keep total General Fund capital financing costs at or below 12% of General Fund Net Expenditure; borrow only for service need; recognise that borrowing for investment or commercial yield is not permitted, nor is it permitted to fund revenue expenditure.
- Scenario-based planning: update a rolling five-year financial model at least annually, with upside/central/downside scenarios covering funding, demand, pay and prices.
- Value for money and prevention: plan and implement efficient and effective delivery of services; prioritise spending that prevents demand, protects the most vulnerable and demonstrably improves outcomes.
- Income discipline: exercise local fiscal levers annually (Council Tax, fees/charges) with a presumption of at least real-terms protection of the tax base, subject to equality and socio-economic impact assessment; explore new fiscal powers as and when possible.
- Transparency: publish clear, plain-English budget information, options, integrated impact assessments, with regular financial reporting throughout the year to track progress; maintain early close processes and audit of annual accounts.

C. External environment and funding context

C.1 The MTFS reflects: (a) the Accounts Commission's latest financial bulletins and 2025/26 council budgets briefing; (b) the Verity House Agreement and progress towards a fiscal framework with reduced ring-fencing; (c) CIPFA's FM and Prudential/Treasury Codes; (d) the Scottish Government's MTFS, July 2025 and (e) the Scottish Fiscal Commission's long-term fiscal sustainability analysis. Key implications are continued cost pressures, no headroom in the Scottish Budget, and the need to accelerate transformation and engagement with communities.

- Scottish Government funding outlook: core funding is expected to increase in cash terms to address the cost pressures identified by the Scottish Government in its MTFS, July 2025, but will be address real terms cost pressures over the medium term. Ring-fencing and directed spend continue to constrain local flexibility, though the Verity House Agreement aims to reduce this over time.

- Fiscal sustainability: the Scottish Fiscal Commission projects that, if services continue unchanged, devolved spending will exceed funding on average by c.1.6–1.7% p.a. over the long term, underscoring the need for change; managing demand in the medium to long term will be facilitated by focusing resources on prevention activities.

- Accounts Commission expectations: councils must consult clearly on budget impacts, be transparent about savings and reserves, and deliver transformation at pace while assessing impacts on vulnerable groups.

D. Financial outlook and scenarios

D.1 Assumptions will be refreshed through the budget setting process. Current Central Scenario assumptions are:

- Scottish Government grant: increase in cash for 2026/27 (1%) with limited cash growth; downside allows for distribution effects.

- Pay: 3.5% in 2026/27 then 2.0% p.a. (subject to national bargaining and funding).

- Prices: general 2–3% p.a.; utilities remain volatile; contracts indexed by formula.

- Demand: school roll and children's social care pressures to be monitored; adult social care pressure continues via the IJB.

- Council Tax: annual decisions must be taken by Council; planning assumption is a real-terms increase to protect the tax base, subject to impact assessment and consultation.

- Fees & charges: the Service Income Policy should be applied annually with a presumption of moving towards full cost recovery where appropriate and legally permissible.

D.2 On these assumptions the 2026/27 budget gap is currently estimated at £13m–£48m with a central estimate of £18m. An update, based on the Local Government Settlement for 2026/27 will be issued to Councillors in Quarter 4 ahead of the publication of papers for the Budget meeting on 4 March 2026.

E. Reserves policy (risk-based)

E.1 The Council currently maintains a risk based uncommitted reserve consistent with LASAAC/CIPFA guidance. The General Fund uncommitted reserve is currently a minimum value of £12m, to recognise the changing value of money / inflation the Council should plan to move this to a percentage based target range of, for example, 2%–3% of General Fund Net Expenditure. Earmarked reserves will be reviewed twice yearly to confirm purpose, use and adequacy, actioned through Budget setting and Annual Accounts. Any planned drawdown from the Uncommitted Reserves must be accompanied by a replenishment plan within the MTFS horizon.

- Purpose of reserves: manage volatility, invest to save, absorb timing differences, and provide resilience to shocks.
- Governance: Chief Officer – Finance to certify adequacy annually (Budget setting) and report the need for any use of Uncommitted General Fund Reserves to Finance & Resources Committee; external audit scrutiny via annual accounts.

F. Capital, treasury and prudential framework

F.1 Capital plans will be affordable, prudent and sustainable. The MTFS integrates the Capital Strategy and Treasury Management Strategy, adopting the CIPFA Prudential Code (2021) and Treasury Management Code (2021). Key parameters are:

- Financing costs cap: retain 12% of General Fund Net Expenditure as a hard ceiling; any proposal breaching the cap requires explicit Council approval with mitigation.
- No debt-for-yield: borrowing primarily for commercial return is not permitted.
- Minimum Revenue Provision (MRP) / loans fund repayments: maintain prudent, transparent policies aligned to asset lives and service benefit.
- Capital gateway and business cases: robust options appraisal (including do-minimum), whole-life costing, affordability, deliverability and benefits tracking.

G. Closing the gap: response plan 2026/27–2030/31

G.1 Responding to the financial pressures is a statutory responsibility, this is achieved through the approval of Council Tax and setting a balanced budget annually, backed up by in-year actions where and as appropriate. The Council will continue to balance the books through:

- Target Operating Model (TOM 1.2): deepen end-to-end redesign, automation and digital customer journeys; focus on prevention and demand management.
- Multi-agency transformation: align with Community Planning partners and the IJB to reduce avoidable demand and integrate delivery where it improves outcomes.
- Efficiency programme: recurring cash-releasing savings through procurement, contract management, process standardisation, spans-and-layers and asset rationalisation.
- Income measures: annual review of Council Tax and a structured fees/charges programme (cost recovery where viable), with equality and socio-economic impact assessments.
- One-offs and fiscal flexibilities: use only to invest-to-save or to bridge timing, with a clear payback and replenishment plan; avoid structural dependency.

H. Risk, assurance and equality

H.1 Financial risks can arise from almost anywhere, some of which will be within the Council's control, but many will not be influenced by the Council. The Council will continue to build financial planning taking account of where risks are known or there is evidence, while remain aware and prudent in the approach to funding and expenditure assumptions, including the risks affecting Arms Length External Organisations (ALEO).

H.2 Integrated Impact Assessments (IIA) and the Fairer Scotland Duty assessment will accompany budget options and be updated as proposals are refined.

I. Governance, monitoring and engagement

- Early close processes and procedures are in place for Council Annual Accounts and should be maintained to support good financial practice, London Stock Exchange listing and Credit Rating assessment.
- Quarterly reporting to committee: Quarterly financial performance reports to Finance & Resources Committee, including prudential indicators and contingent liabilities tracking.
- In-year trigger points: continue to monitor financial resilience framework metrics and develop trigger point, for example in respect of forecasts, reserves, debt, capital financing, capital programme.
- Public engagement: the Budget Protocol, as part of the Scheme of Governance, will be reviewed regularly and will drive public engagement across the city (strategic choices and detailed options); feedback will be prepared for the Council, and shared with Elected Members and Citizens through the Council Budget papers.

INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) is a 5 year plan which sets out our commitment to provide services that meet the needs of people locally and represents value for money. The MTFS is aligned to the Council Delivery Plan, which in turn aligns the Council's commitments to the vision and priorities of the Local Outcome Improvement Plan.

1.2 The Local Outcome Improvement Plan's (LOIP) vision is:

'A place where all people can prosper'

1.3 The Council, 24 August 2023 [CUS/22/171], agreed the Target Operation Model (TOM) 1.2 for 2022-27 to support the necessary scale of transformation to deliver the level of savings required over the next 5 years, as outlined in the Medium-Term Financial Strategy (MTFS). The objectives of TOM 1.2 are:

1. Support the Council to address the 5-year funding gap of £134m as outlined in the [2023] MTFS.
2. Continue to exploit digital technologies within the Council's Digital Transformation agenda to enable services to adopt technology for various activities and processes, thus enabling the Council to fully leverage technologies to accelerate their processes.
3. Develop an organisational workforce that is flexible ensuring all staff have the necessary skills to work effectively within the Council's operating model. :

1.4 Our approach to achieving this is by organising ourselves for the future. The key strategic linkages to create a future environment for the way in which we will operate can be summarised in the following dimensions:

- The nature of our work (why we work) - we work to prevent our citizens from experiencing negative and harmful outcomes and increasingly will be providing less direct service delivery and focusing more on helping our citizens, families, and communities to be empowered to help themselves and each other.
- Building our 'Workforce' of the future (how we work and how we behave) - enabled by technology, the public sector and partner organisations have, and will increasingly make use of, more varied work arrangements, accessing more diverse pools of skills and capabilities, both inside, outside and across organisational boundaries. As a result of the next phase of our digital maturity journey, our staff will undertake less and less transactional work, thereby creating more capacity for our workforce to focus on building relationships with citizens and supporting community capacity building. We will work with a singular focus on outcomes, working as groups of staff to make our contribution to those outcomes. And as teams, we will enjoy increased empowerment and flexibility.
- Re-imagining our 'Workplace' of the future (where we work) - technology, and new models for employing talent, are starting to redefine the workplace and its organisational supports. These changes have and will continue to impact physical workspaces (including remote and hybrid work) along with policies that promote

employee well-being. We will no longer define our workplace by a defined building and instead will view our workplace as wherever we can best serve our citizens

1.5 The key objectives of the MTFS are as follows:

- To ensure that effective financial planning and management contributes to the Council achieving the priorities in the Council Delivery Plan;
- To frame and define the parameters for financial decisions to be taken;
- To direct resources to the Council's priorities to support the achievement of the Council Delivery Plan;
- To highlight and promote the maximisation of income to support the priorities of the council;
- To identify the context within which decisions about resource allocation will have to be made;
- To highlight the need to improve value for money - managing our resources as efficiently as possible; streamlining processes and systems; getting better value from commissioning and procurement; whilst seeking to minimise the impact of budget savings on priority services; and
- To ensure the Council's financial standing is understood and identify where action is needed to enhance financial resilience.

1.6 The merits of medium and long-term financial planning are well documented[1] and a key component of the council's strategic framework, building on the medium-term focus that has underpinned annual budget setting. The aim 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 over the medium term.

1.7 Supporting financial planning relies on national and local data, from which assumptions emerge, that can be applied to a range of scenarios. Due to the nature of a local authority, it is not in control of all the determinants of its income and cost base, and crucially this includes the financial support provided from public funds. Many statutory services are provided free at the point of delivery / use and therefore the scale, scope and shape of services is substantially determined by how much subsidy (grant) is provided in total. Complexity multiplies as the statutory duties and commitments increase.

1.8 The ability of a local authority to develop medium and long-term financial planning is significantly influenced by the following factors:

- the ratio between locally and nationally determined levels of taxation and fees and charges and the prospects of this changing over time; and

[1] Example, CIPFAs Looking Forward – Medium Term Financial Strategies for the UK Public Sector, 2016

- whether government provides certainty regarding the level of government grant beyond the immediate next financial year.

1.9 Public finances have not been immune to the impact of global events over recent years, including the impact of the Covid-19 pandemic, the economic repercussions of the Russian invasion of Ukraine, the resulting surge in inflations levels, and the emergence of the cost of living crisis. The return of President Trump to the White House has generated further global economic shocks due to new tariff policies introduced by the United States. The combination of all of this means it is difficult to look ahead for what is needed now. While the long term impact of the health pandemic may now be better understood in relation to citizen, business and visitor behaviours, it can be said that the impact of dispersal, asylum and welcome schemes is increasing, and continues to be a dominant factor on the cost and demand placed on the Council. This is something that is not short term, and will have an impact for the foreseeable future.

1.10 Although inflation levels have now stabilised to more familiar levels in line with Bank of England targets, sensitivity to further economic shocks remains. This makes the task of medium and long-term financial planning even more challenging. The long-term impact of higher costs of pay and commodity prices now appears to be permanent change to the Council's baseline, meaning the Council has to deal with future cost pressures that are greater than previously modelled.

1.11 With borrowing by the UK Treasury at levels not seen for many decades both the UK and Scottish Government will be required to make political choices in terms of what is affordable in the short, medium and long term.

1.12 The latest UK Government Spending Review[2] was published in June 2025, just before the refreshed Scottish Government Medium Term Financial Strategy[3]. This was the first update of the Scottish Government's MTFS since 2023. Both updates include context for the next Scottish Budget, and the Scottish Parliament. The Scottish Government's refresh of its Programme for Governance, relating to its final year before the upcoming Holyrood elections in May 2026, had already been published in May 2025.[4] This updated the country following the last Resource Spending Review in 2022[5] for the current term of the Scottish Parliament, and confirmed priorities, commitments and actions for the year ahead. Further details are unlikely to be provided until the Scottish Budget, currently scheduled for 26 November 2025. It is

[2] UK Government Spending Review 2025

[3] Scotland's Fiscal Outlook – The Scottish Government's Medium Term Financial Strategy 2025

[4] Scottish Government Programme for Government 2025 to 2026

[5] Investing in Scotland's Future: Resource Spending Review, 31 May 2022

expected that details of the new Scottish Spending Review, covering indicative resource spending plans to 2028/29, will be published around the same time.

1.13 The UK Government's Spring 2024 Budget[6] was published in March 2024. The UK General Election in July 2024 returned Sir Kier Starmer and the Labour party to office, and was followed in October by the Autumn 2024 Budget: Fixing the Foundations to Deliver Change.[7]

1.14 This Budget was issued after a period of intense review of public spending by the new government, warnings that they had discovered a "black hole" in the public finances inherited from their predecessors, and that the budget was "going to be painful".[8]

1.15 The Budget promised to protect working people, however the national need for financial support to address the 'Cost of Living Crisis' remains. Where household incomes do not keep pace with the cost of living, it impacts people and businesses and the Council receives more demand as a result.

1.16 One of the changes announced in the Autumn budget was the change to Employer's National Insurance; the per-employee threshold was reduced from £9,100 to £5,000, and the rate increased to 15%. The impact of this change on the Council was additional pay costs of almost £7.4 million for the 2025/26 financial year, though this has not been fully matched by increases to the Council's funding.

1.17 The Council will recognise that with so much of its income outside of its control, the assumptions that underpin the MTFS cannot, by definition, be exact, they are subject to refinement and change over time. Therefore, a series of scenarios should be used to describe a range of income possibilities. This refresh of the MTFS focuses on the changes to a central scenario, while recognising upside and downside scenarios that have had to be revised to take account of the more extreme nature of the financial environment in which we operate. These scenarios are refreshed regularly as part of the budget setting and strategic planning processes.

1.18 The detail contained in this document reinforces the conclusion in the 2022 MTFS that the following principles are needed to guide our financial management approach, and there are additions given political developments in the last year.

1.18 Principles the council should follow for planning its income are:

1) Be prudent about the level of Scottish Government funding that will be provided in the local government settlement both in short, medium and long term.

[6] HM Treasury, Spring Budget 2024, March 2024

[7] HM Treasury, Autumn Budget 2024, October 2024

[8] BBC News

2) Be prudent in the financial assumption regarding the funding of national priorities and commitments, and be agile to changes that the New Deal with Local Government (the Verity House Agreement[9]) may present – "From this point onwards, the default position will be no ring-fencing or direction of funding."
3) Be aware of the potential threat of funding being removed if national priorities are not met.
4) Exercise the discretion it has over local taxation and increase the Band D charge for Council Tax annually to support future budgets.
5) Account for any income source that is non-specific as a corporate resource to support the whole revenue budget.
6) Identify and track funding streams being directed from UK Government such as the Levelling Up and Shared Prosperity Funds so that the Council can be pro-active in applying for funding that becomes available to support local outcomes.
7) Apply its Service Income Policy to support the effective and sustainable delivery of services where charges can be applied and exercise that discretion annually and collect the income that is rightfully owed.
8) Identify and evaluate emerging discretionary powers on a regular basis to determine their applicability to Aberdeen City, ensuring that decisions are taken in a timely manner to ensure maximum benefit is achieved.
9) Be aware in respect of the financial risks to the council from global events such as the Russian invasion of Ukraine, resettlement and dispersal schemes and the funding that may or may not accompany them.
10) Apply its approved Reserves Policy, retaining recommended uncommitted General Fund Reserves and thereby avoiding the use of one-off income streams for recurring costs.

1.19 Principles the council should follow for planning its expenditure are:

1) Scenarios are developed and the Chief Officer – Finance will, in conjunction with the Extended Corporate Management Team (ECMT), establish appropriate financial assumptions to apply.
2) Recognise that there should be a deliberate shift of resources towards prevention and early intervention actions, which is in line with the three tier intervention framework[10].
3) Develop its approach to strategic resource allocation to further shape where and how resources are deployed, noting the potential reduction in ring-fencing and

[9] New Deal with Local Government, June 2023, Verity House Agreement
[10] Aberdeen City Council, March 2023, Prevention & Early Intervention (CUS/23/064)

direction through the Verity House Agreement. Through this approach we will attain greater understanding of how resources align to outcomes and the related impact and consequences of our decisions.

4) Local constraints should be minimised wherever possible to provide as much flexibility to achieve resource shift and deliver savings.
5) Align commissioning intentions, service standards and budget allocations thereby ensuring council focuses on the very highest of priorities and on the most important outcomes.
6) Decommission services and/or reduce service standards where funding levels cannot sustain existing commissioning intentions and service standards.
7) Increase the scale of service redesign to address the emerging financial scenarios.
8) Recognise and act on the reality that financial challenges of the scale reported are not deliverable from small service budgets, and all have to contribute to achieving balance budgets and ensuring financial sustainability is to be addressed.
9) Annual efficiencies from all operations must be delivered.
10) Financial Resilience Framework data must be considered as part of decision making, including reference to the Risk Appetite Statement.
11) Capital investment revenue implications must be incorporated into financial scenario plans, both from ongoing operational delivery and capital financing perspectives.

1.20 Principles the council should follow for planning its capital investment are:

1) Capital investment must be prudent, affordable and sustainable, as defined by the Prudential Code.
2) The business case methodology must be used to document capital investment opportunities.
3) Revenue implications of capital investment opportunities must be identified and agreed with the Chief Officer – Finance to incorporate into the council's financial scenario planning.
4) Financial Resilience Framework data must be considered as part of decision making, including reference to the Risk Appetite Statement.
5) Identify and pursue external funding opportunities to support approved capital investment and council priorities.
6) Give priority to the projects that will deliver the greatest return, and this can be measured both financially and socially.

7) Develop a resilience to the current operating environment (e.g. supply chain, inflation, pandemic) and incorporate a contingency into the Capital Programme.

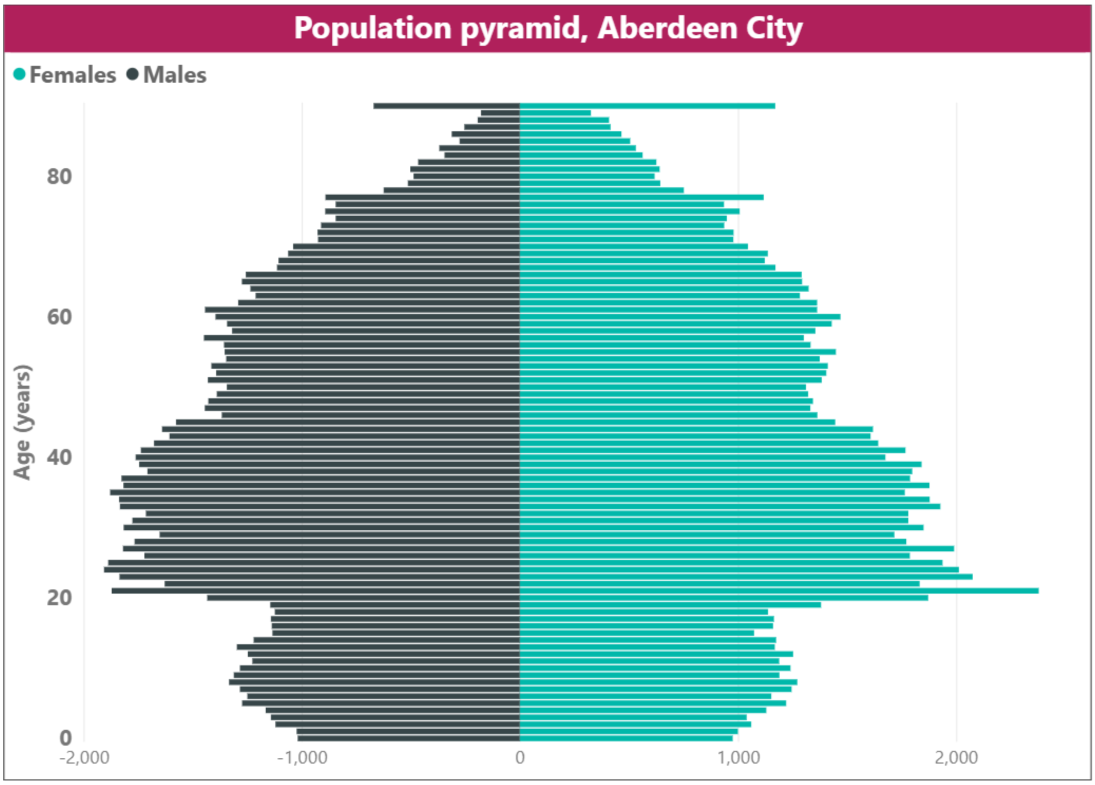
8) Consider and document the financial, legal and reputation implications of proposing to withdraw from legally or partially committed capital projects.

1.21 Aberdeen - Background and Context

1.21.1 Some of the financial challenges affecting the financial sustainability of all local authorities is the pressure from demographic change and corresponding rising demand. The following section highlights some of the main sources of demand and projected future pressures.

1.21.2 Population – Since the previous Medium Term Financial Plan the estimated population figures for 2024 have been released by National Records of Scotland. These show that the Aberdeen's population was at a historical high of 231,780. This is an increase of 2,420 on the previous year.

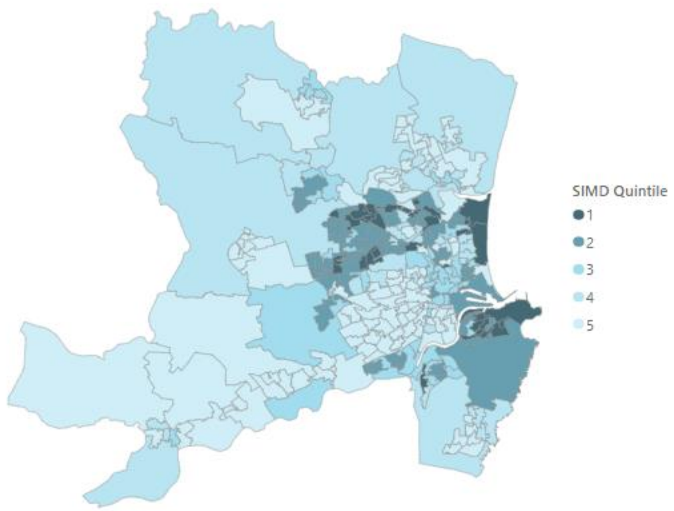
1.21.3 Almost all of the annual movement in population was from migration. Indeed, natural change (i.e. births minus deaths) should a net reduction of 262. It is very likely that this pattern will be reflected in future years given the falling trend in births over the last decade. The age structure of the City's population is shown below.



1.21.4 Housing – In 2024, there were 125,828 dwellings in Aberdeen (this number has increased every year for, at least, 16 years) and 111,024 households in 2023 – an increase of 1,304 (1.2%) on the number of dwellings in 2021. Whilst there is a considerable demand for housing in Aberdeen, in 2024, the average purchase price for a residential property in Aberdeen City was £181,008 up from £178,726 in 2023, but still considerably lower than the 2015 peak of £220,665. The number of properties sold in 2024 increased from 4,132 in 2023 to 4,461 in 2024. In 2024, the average monthly rent in Aberdeen City and Shire (Broad Rental Market Area) was £560 for a one-bedroomed property, £766 for a 2-bedroomed property, £1,067 for a 3-bedroomed property and £1,619 for a 4-bedroomed property. This represents increases of between 4 and 8% compared to the average rents in 2023. Rents for all property types are lower than pre-2015 levels.

1.21.5 Deprivation - Within Aberdeen there are areas of significant deprivation and inequality. Aberdeen continues to have deprivation 'hot spots' that are amongst some of the most deprived areas in the country and these can lie adjacent to some of the least deprived areas. In Aberdeen, 29 areas are among the 20% most deprived in Scotland in 2020, 7 more than in 2016. Highest levels of deprivation are recorded for crime, housing and education domains. Whilst deprivation is a key driver of demand, it has, proportionately, a smaller impact on funding allocated to the council. Refreshed SIMD data will be available in 2026.

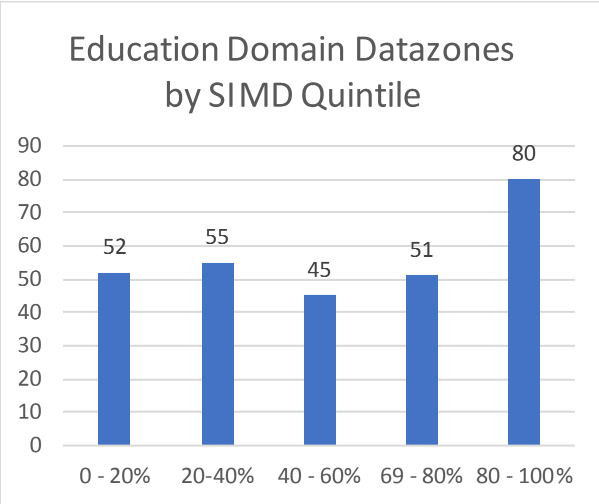
Areas of Multiple Deprivation 2020

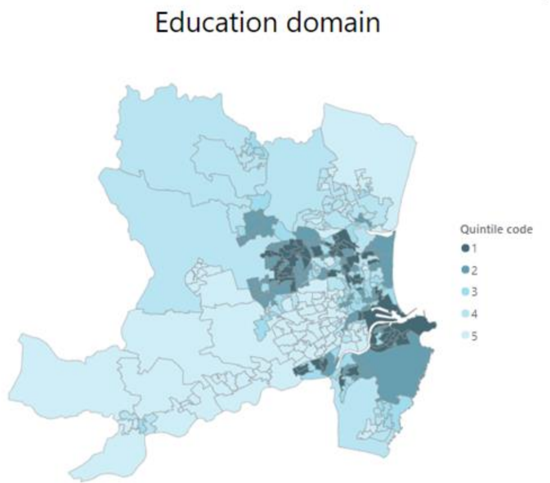


1.21.6 Education - Significant investment has been made, and continues to be made, to modernise the city's school buildings. In line with fluctuating population projections and the potential increase in digital methods of learning, the school estate will continue to be reviewed to ensure it matches future levels and nature of demand. Education is the single largest area of spend for the Council and most funding received is based on the population however due to the 'floor' mechanism in the distribution formula there is never a point at which funding 'catches up' with population increases.

1.21.7 There has been a considerable rise in demand for education and children's services in recent years. In 2024/25 there were 14,968 primary school pupils, compared to 15,135 in 2022/23 and 11,209 secondary pupils, compared to 10,897 in 2022/23. There were also 128 pupils enrolled in Special Schools. 751 pupils were either declared or assessed disabled. More than 4,000 pupils had an additional support need as a result of “English as an Additional Language”.

1.21.8 There is significant variation in educational outcomes across different areas in Aberdeen with 52 datazones being classed within the 20% most deprived in Scotland for the education domain of the Scottish Indices of Multiple Deprivation in 2020.





1.21.9 Children’s Services - Aberdeen has around 450 children who are “looked after” by the authority (LAC). This is, proportionately lower than the national average. A higher rate of the city’s LAC are placed either with foster carers or in residential accommodation. The city is largely consistent with the national average of children on the child protection register (2020 comparisons).

1.21.10 The implementation of the National Transfer Scheme has seen an increase in the diversity of our children and young people with care experience. As a result, some unaccompanied minors require to be placed into our local residential children’s homes given their age and stage. As would be anticipated, there is a level of need apparent in those seeking sanctuary in the city. It is exceptionally difficult to predict ongoing demand with any certainty.

1.21.11 The Public Health restrictions of the last few years, downturn in the local economy and increased costs being experienced by families, is impacting on the needs of children and families. There is a notable rise in vulnerability and need and this is increasing demand for more specialist services.

1.21.12 Employment - The labour market in Aberdeen City shows gradual improvement with the latest employment rate (16–64) of 75.4% and economic inactivity of 22.1% leading into 2025. The rate of employment in Aberdeen is higher than the Scottish average and the same rate as in the UK. Although it has been fluctuating over the last year. Among those inactive, students remain the largest group (~41%), while long-term sick has risen to ~21%, reinforcing the ongoing health-related drag on labour supply even as overall inactivity edges down.

1.21.13 The Claimant Count (people claiming unemployment-related benefits) has plateaued at a low single-digit rate locally and remains above pre-covid levels. The latest releases of August 2025 show Aberdeen City's claimant count rate around 3.5% of the 16–64 population which is slightly higher than in Scotland (3.1%) but lower than the UK average of 4%. The claimant count rate has been rising since October 2024 (3.1%) having previously fallen from a peak of 6.2% in March 2021.

1.22 *Increased financial risk and sensitivity – The lasting impact of Covid-19*

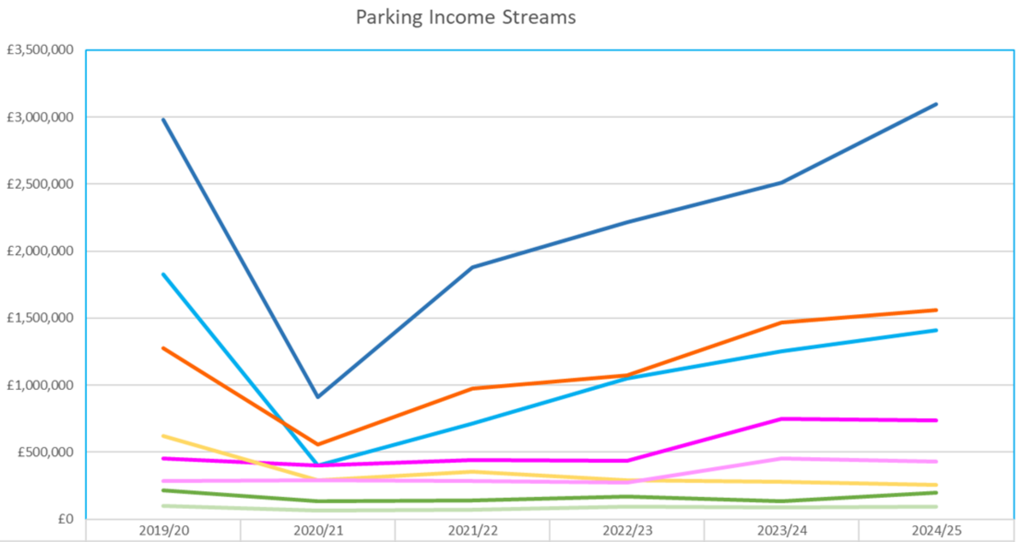
1.22.1 It has now been 5 years since the start of the Covid-19 pandemic, and more than 3 years since the UK started to recover and respond. These impacts are now embedded in our day-to-day and are the "new normal".

1.22.2 The UK, like many other countries, have spoken about "living with the virus" and wound down many of the tests and social mixing rules and Dr Mike Ryan, from the WHO's health emergencies programme, said the emergency may have ended, but the threat is still there. "We fully expect that this virus will continue to transmit and this is the history of pandemics" and "In most cases, pandemics truly end when the next pandemic begins."[11]

1.22.3 The financial settlement for Scottish Local Government now contains no additional funding for Covid-19 related pressures, with Councils relying on reducing funds retained on the balance sheet at 31 March 2025 to provide resilience into and beyond 2024/25.

1.22.4 Recent analysis of parking income indicates a return to pre-pandemic income levels, though the structure of supporting charges has changed substantially over the last 5 years, as illustrated in the following chart:

[11] BBC News, May 2023, Covid global health emergency is over, WHO says



	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
On Street	£2,982,751	£912,426	£1,879,946	£2,216,751	£2,509,742	£3,094,722
Off Street	£1,826,478	£400,409	£711,959	£1,048,713	£1,251,634	£1,407,978
Permit - Residents	£452,702	£403,146	£441,771	£432,940	£750,648	£734,450
Permit - Monthly	£619,273	£291,617	£356,225	£288,781	£277,303	£254,727
Permit - Contractor	£98,899	£65,085	£67,689	£92,355	£86,361	£92,471
Permit - Business	£215,911	£136,215	£139,474	£169,516	£130,809	£195,318
Permit - Visitor	£284,043	£290,920	£282,156	£272,136	£454,130	£429,402
PCNs	£1,276,263	£559,536	£976,038	£1,073,347	£1,467,275	£1,560,652

On Street Off Street Permit - Residents Permit - Monthly Permit - Contractor Permit - Business Permit - Visitor PCNs

1.23 Increased financial risk and sensitivity – Poverty and cost of living crisis

1.23.1 The Scottish Government published its analysis of the Cost of Living Crisis in February 2025[12] and highlighted "The cost of living crisis is likely to have increased the demand for public and third sector services at the same time as increasing the cost of delivering services."

1.23.2 Examples of what it really means for those in poverty was provided in the report "Women, disabled people, ethnic minorities, rural households, larger households, young people, students and carers, lone parents and single person households, households in receipt of income-related benefits, people narrowly ineligible for benefits, and people with no recourse to public funds were particularly adversely affected. Some households will have a number of these intersectional characteristics, potentially compounding disadvantage".

1.23.3 The report highlights that despite Government interventions, the long term impact of inflationary factors are now "locked in" meaning continued pressures on more financially vulnerable groups from continued price increases on food an energy. "The longer term effects of the cost of living crisis continue to present serious economic and social challenges for Scotland, and the crisis may negatively affect people's health, wellbeing and future resilience for years to come."

[12] Scottish Government, Understanding the Cost of Living Crisis in Scotland, February 2025

1.23.4 The type of pressure being felt in Aberdeen City is was outlined in the recent report from the Centre for Progressive Policy[13], where the comparison across all Local Authorities can been seen.

Heatmap of Vulnerability indicators for Scottish Local Authorities:

Local Authority	Fuel Poverty	Food Insecurity	Child Poverty	Claimant Count	Low Pay	Economic Inactivity	Housing Costs
Aberdeen City	26.1%	7.6%	20.5%	2.5%	9.9%	24.9%	23.8%

Fuel Poverty	The % of households spending more than 10% of income on fuel costs and if the remaining household income is insufficient to maintain an adequate standard of living
Food Insecurity	The % of households within a local authority experiencing struggle with food insecurity
Child Poverty	The % of children who are living in households with below 60% median income after housing costs
Claimant Count	The % of the local population claiming unemployment-related benefits
Low Pay	The % of jobs that pay at least two-thirds below the UK median gross hourly pay by local authority
Economic Inactivity	The % of the working age population who are not in employment and not actively seeking employment
Housing Costs	The % of monthly take home pay required for someone earning the median in a local authority, to rent a median 1-bed property in the local authority area

1.23.5 The Council remains aware of the financial risks from its arm's length external organisations (ALEOs), reliant on large income streams from our citizens and visitors. And although all have remained self-sufficient throughout the challenges of the pandemic, the cost of living crisis and inflation/energy cost environment make trading conditions more and more difficult. The potential to require funding from the Council in economic shock situations remains a risk that cannot be fully mitigated.

1.24 Increased financial risk and sensitivity – Inflation and supply chain volatility

1.24.1 A combination of factors including ongoing market impacts from the pandemic, the UK's exit from the European Union and the invasion of Ukraine affecting access to supply markets in Russia, Ukraine and surrounding area, led to a massive rise in inflation during 2023 and a cycle of market and price volatility and shortages across many commodities. Although recent figures from the Bank of England are indicating inflation has returned to pre-Russian invasion levels, the negative impacts on the delivery of capital projects, on budgets (General Fund and HRA), and on revenue expenditure in the delivery of services and procurement processes carried out for affected commodities have become the "new normal".

1.24.2 According to the Bank of England[14], "Higher energy prices are one of the main reasons for this [inflation being higher than target]. Russia's invasion of Ukraine led to large increases in the price of gas. Households' energy costs have almost doubled since the start of last year [2022]. Higher prices for the goods we buy from abroad have also played a big role. During the Covid pandemic people started to buy more goods. But the people selling these have had problems getting enough of them to sell to customers. That led to higher prices – particularly for goods imported from abroad."

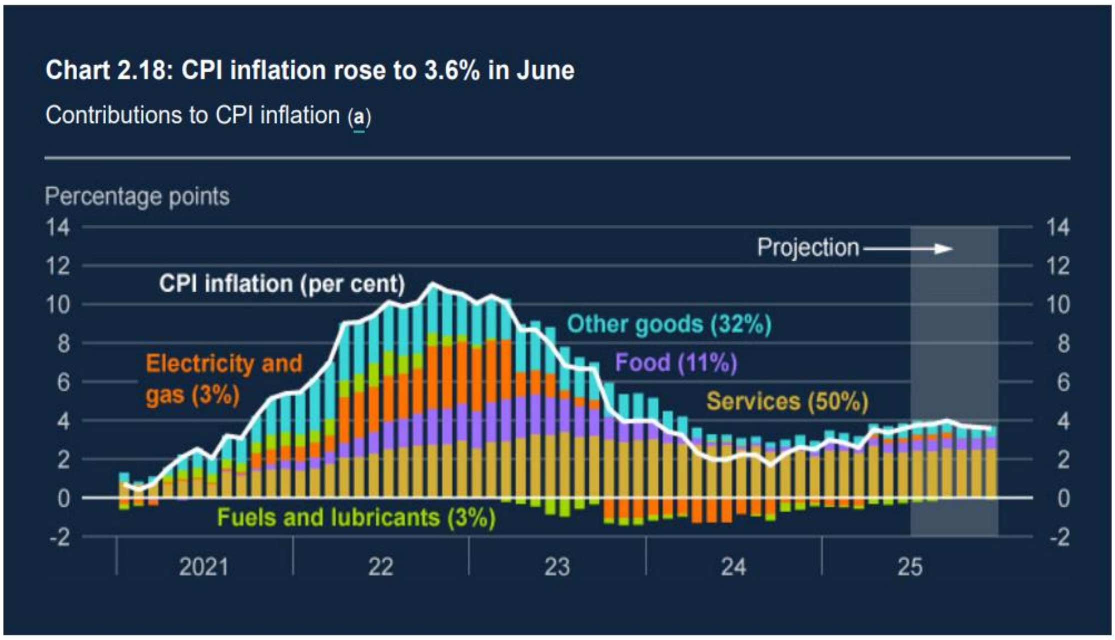
[13] Centre for Progressive Policy, July 2023, The cost of living crisis across the devolved nations

[14] Bank of England, May 2023, Monetary Policy Report

1.24.3 But is not just from products coming into the country, "There is also pressure on prices from developments at home. Businesses are charging more for their products because of the higher costs they face. There are lots of job vacancies as fewer people are seeking work following the pandemic. That means that employers are having to offer higher wages to attract job applicants. Prices for services have risen markedly."

1.24.4 This has now been present in our economy for the last 3 years and the impact on people and household budgets is significant. For the Bank of England "As a result, the UK economy is growing slowly."

Chart 1: Contributions to CPI Inflation, Bank of England, August 2025



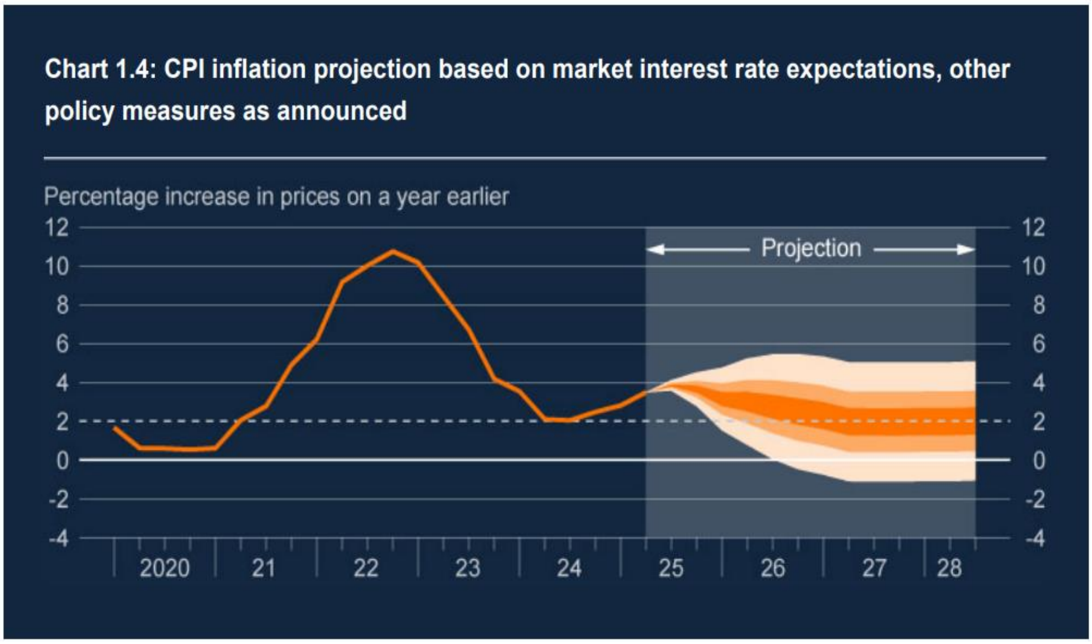
Sources: Bloomberg Finance L.P., Department for Energy Security and Net Zero, ONS and Bank calculations.

(a) Figures in parentheses are CPI basket weights in 2025, which do not sum to 100% due to rounding. Data are shown to June 2025. Component-level Bank staff projections are shown from July to December 2025. The food component is defined as food and non-alcoholic beverages. Fuels and lubricants estimates use Department for Energy Security and Net Zero petrol price data for July 2025 and are then projected based on the sterling oil futures curve.

1.24.5 That forty-year high inflation across many parts of the world, including the UK, is presenting a significant challenge for organisations. The Monetary Policy Report[15] published by the Bank of England in August 2025 estimates that inflation peaked around the end of 2022 but only fell slowly through 2023 and into 2024. There were signs of a slight increase in inflation over the summer of 2025 before returning to the expected long slow decline in inflation now forecast out to 2028:

Chart 2: Inflation (CPI) Forecasts, Bank of England, August 2025

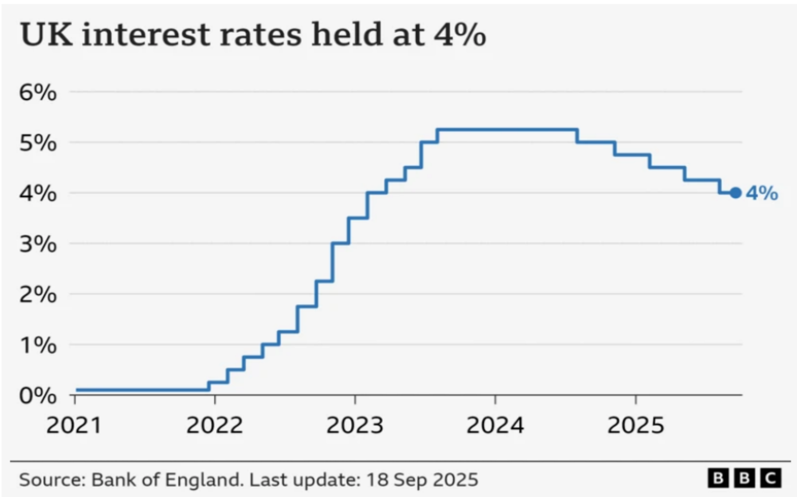
[15] Bank of England Monetary Policy Report August 2025



1.24.6 Lower inflation means that prices will stop increasing as quickly as they were. The Bank of England are clear "Our aim is to bring back low and stable inflation. Low and stable inflation is vital for a healthy economy. An economy in which households and businesses can plan for the future with confidence and money holds its value."[16]

1.24.7 As a result of the new inflation figures, in August 2024 the bank of England cut interest rates for the first time since August 2020, moving from 5.25% to 5%. Further interest cuts have followed, with the latest move from 4.25% to 4% in August 2025.

Chart 3: Bank of England Base Rates (%), September 2025



1.24.8 In pursuit of the low inflation goal the Bank of England acknowledge that they "…know that means that many people will face higher borrowing costs. Around one in three households in the UK have a mortgage. But high inflation that lasts for a long time makes things worse for everyone."

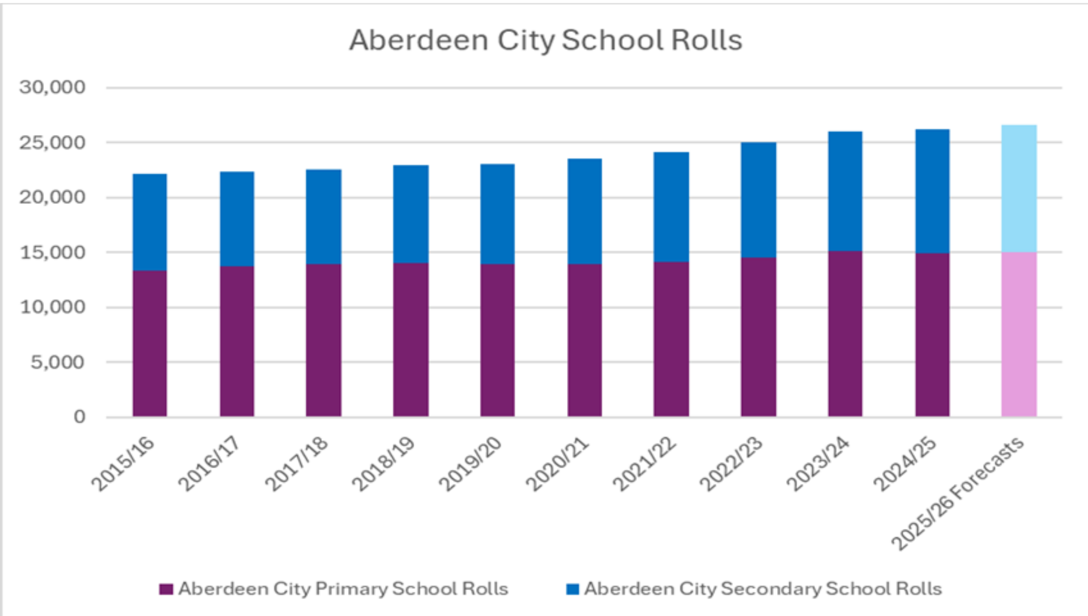
[16] Bank of England, May 2023, Monetary Policy Report

1.24.9 "Higher interest rates make it more expensive for people to borrow money and encourage them to save. That means that, overall, they will tend to spend less. If people on the whole spend less on goods and services, prices will tend to rise more slowly. That lowers the rate of inflation."

1.24.10 For the Council, it must consume many of the same goods and services that we all purchase, from ingredients for school meals, to fuel for our vehicles and buildings, these cost increases have not been reflected in the funding received in the past two years and therefore present an ongoing and material financial risk to the Council. To delivery our services there must be the funding in place to pay for the components – our staff, the buildings they work in and machinery and equipment they use and the goods and services that purchase.

1.25 Increased financial risk and sensitivity – External demand from population changes

1.25.1 There has been a considerable rise in demand for education and children's services. The rise in school roll since 2019 can largely be attributed to the steep rise in international students attending Higher Education Institutions, around 2,500 dependants of international students were enrolled in our schools for the first time over school session 2022/23. Although the option for students to bring dependents into the UK was significantly restricted at the beginning of 2024[17], it did not directly reduce the numbers already here.



1.25.2 There is also a notable decrease in the number of children transitioning into private education and increasing evidence of families returning to Local Authority schools.

[17] [Tough government action on student visas comes into effect - GOV.UK (www.gov.uk)]

Notionally that constitutes a £14m cost to the Council, with the real day to day cost of increased numbers of teachers, pupil support workers and teaching spaces in use, being managed school by school taking on the additional variable costs as they arise.

1.25.3 As noted in 1.21.10, the implementation of the National Transfer Scheme has seen an increase in the diversity of our children and young people with care experience. As a result, greater pressure is being placed on local resources resulting in the need for continued use of external and out of authority placements. Monitoring and assessing the young people, to determine the level of support required, places considerable pressure on children's social work services.

1.26 Increased financial risk and sensitivity – Council resilience

1.26.1 To counteract some of the risk, mitigation in place includes retaining funding provided in previous years that the Council has been able to avoid spending. This remains available as earmarked reserves on the Council Balance sheet at the end of March 2025.

1.26.2 The Scottish Government has approved a few fiscal flexibilities in recent years, and these have been in place to provide a degree of support to the Council. The Council used the deferral of debt in order to balance the budget in 2022/23 and approved the use of the service concession flexibility as part of the 2023/24 budget. There are no further flexibilities that the Council can turn to.

1.26.3 The Council's approved Reserves Policy confirms a commitment to retaining a minimum of £12m of uncommitted General Fund reserves to rely on in an emergency. As at 31 March 2025 that commitment was met, with £12.153m held in the General Fund Reserve. Given current economic conditions outlined, increasing the uncommitted reserve would be prudent.

1.27 Increased financial risk and sensitivity – Scottish Government Grant Conditions

1.27.1 The unexpected introduction of Fair Work First conditions into Scottish Government grants from July 2023, and the "flowing down" of those conditions to Scottish Government agencies and bodies, created complex new grant compliance procedures in 2023/24. These have been replicated in 2024/25 and 2025/26, with the Council now having to demonstrate its compliance with fair Work First conditions on an annual basis. As a result, the Council's Craft Apprentice grades were reviewed in early 2025 and brought into line with Living Wage hourly rates, though the Council had to absorb this increase in the cost of its staff base. It is the understanding of officers that the Scottish Government will expect this review of Fair Work First to be carried out at least annually in future.

1.27.2 These new grant conditions arrived the year after the Scottish Government introduced a link between funding and Local Government being able to maintain teacher and pupil support assistant numbers, and highlights the challenges in being able to keep grant funding flowing, whilst attempting to manage savings that do not conflict with Scottish Government direction, and having to sustain Health and Social Care Partnership Integration Joint Board funding.

1.27.3 The Verity House Agreement, signed in June 2023, between Scottish Government and Local Government under the New Deal for Local Government was supposed to introduce more flexibility for Local Government to apply its funding to the services it chooses to. Within the first year of the agreement the then First Minister announced a freeze on Council Tax for 2024/25, and with it neutralised Local Government's ability to apply its key fiscal power, at the same time undermining the principles on which the Agreement was based. Although this decision was not repeated for 2025/26, to work in an environment where there is the threat of funding or powers being removed is not one that underpins positive working relationships nor delivers sustainable services or Local Government.

1.28 Conclusion

1.28.1 The council's operating environment remains extremely complex and multi-dimensional. The level of difficulty to manage current services with the constraints and financial pressures placed on the organisation is increasing.

1.28.2 A New Deal for Local Government was to be the springboard to improved relationships and also to improve the understanding of how our national and local outcomes are actually achieved over the medium and long term. At present however there are many risks hanging over the Council and not all of these can be addressed at a local level.

1.28.3 Demand and cost pressures arising from the financial environment are continuing and for the sustainability of the Council, we must find the balance between the limited funding that can subsidise our services and the level of services that we are able to provide. At a time of a cost of living crisis it is extremely difficult to find the right balance between finding savings and raising prices for our citizens and customers, those are the difficult decisions that Councillors must take, when there is increasing expectation of high ambition for improvement. This places pressure on the resourcing of all elements of council activity to the desired level and tension between where funds are deployed for best value.

1.28.4 Despite some funding from Scottish Government, to support pay awards since 2022/23, there is no recurring additional funding to support the legacy of the pandemic, nor additional funding to support our core services going forward. The Council is receiving one off funding for resettlement and asylum schemes which helps with the immediate need however the demand is not reducing and not expected to soon, so funding is squeezed further as we look forward over the medium term.

1.28.5 Drawing on the detail in Section 3, following the Scottish Government's Resource Spending Review, published in May 2022, and nothing contrary included in the most recent Scottish Government MTFS, June 2025, the council must address the cost pressures it faces with a funding scenario that will offer no better than 'flat cash' for the foreseeable future. The potential of a 1% increase in cash in 2026/27 is still in question given the forecasts and funding shortfalls that the Scottish Government has identified in its MTFS, and further detail is unlikely before the Scottish Budget and updated Resource Spending Review due in January 2026. On an annual basis the Scottish Budget and associated Local Government Settlement will next confirm the full extent of the funding package for Local Government for 2026/27, and it is not expected that a multi-year settlement will be provided.

1.28.6 Council Tax remains the highest value financial lever that the council has, exercising an increase in the rate annually provides opportunity to increase income of a recurring nature although economic growth will have an impact on the value of uncollected sums and the overall rate of change in the number of chargeable properties.

1.28.7 Fees and charges (internal and external) should be expected to remain a positive contributor to the council although the impact of behaviour changes in our customers since the pandemic and also the cost of living crisis is certainly being felt in the current year and we should not be surprised by further shocks or unplanned changes to our income going forward.

1.28.8 Balancing the budget and MTFS using the mechanisms described in Section 5 will mean that proposals for a 2026/27 budget [and indicative budgets for the four subsequent years] will be submitted to council's budget meeting in March 2026. This will follow the public consultation on the various options that the Council has to balance budgets across the next four years. The feedback from the consultation exercise will be reported to Council in early 2026.

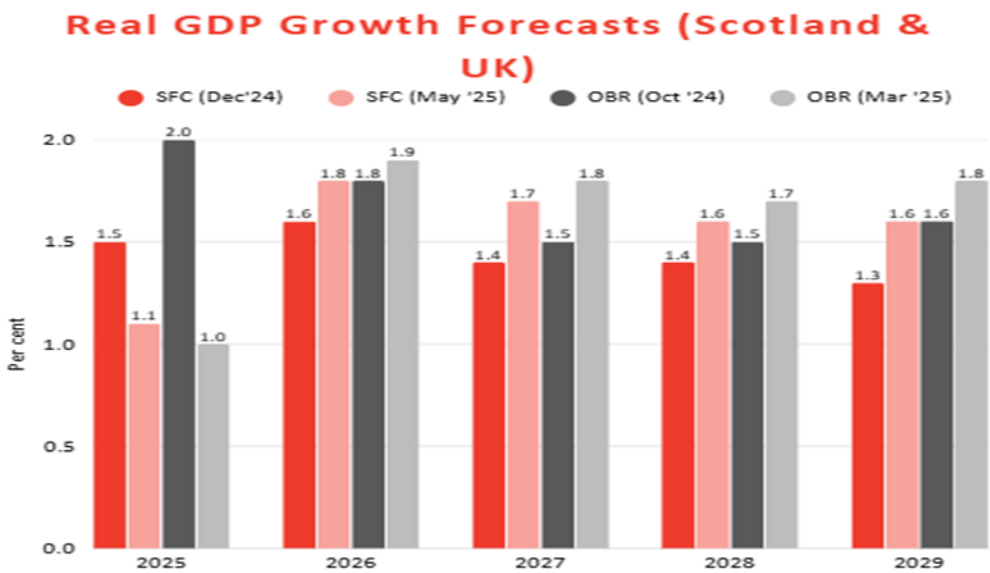
2. THE FUNDING CONTEXT BEYOND 2025/26

2.1 Economic Outlook

2.1.1 The UK economy continues to navigate a period of subdued growth, persistent inflation, and heightened trade uncertainty, with both households and businesses feeling the effects of elevated costs and cautious consumer sentiment. Recent official releases point to modest UK growth, with a mixed sectoral picture. Independent forecasts expect UK GDP growth of 1.2% in 2025 and 1.1% in 2026, indicating a slowing growth environment over the near term[18].

2.1.2 Inflation remains the dominant macro driver. Recent UK and Scotland analyses highlight that headline CPI moved higher through mid-2025, and that central-bank policy is likely to stay restrictive until there is firmer evidence of a sustained disinflation path. Survey evidence from Fraser of Allander, report softer business activity, pressure on operating costs, and greater uncertainty, with near-term growth expectations revised down, with Fraser of Allander now predicting slower growth for Scotland than in the UK at 0.8% for 2025 and 1.0% for 2026[19]. While energy-related pressures have moderated from prior peaks, core cost drivers (including housing-related and certain service costs) continue to influence near-term inflation, and policy guidance indicates any future easing will be gradual and data-dependent[20].

Chart 4, SFC = Scottish Fiscal Commission (Scotland) and Office for Budget Responsibility (UK)



[18] OECD, April 2025, Labour and Employment
[19] Fraser of Allander Q2 2025, Economic Commentary
[20] Bank of England Monetary Policy Report August 2025

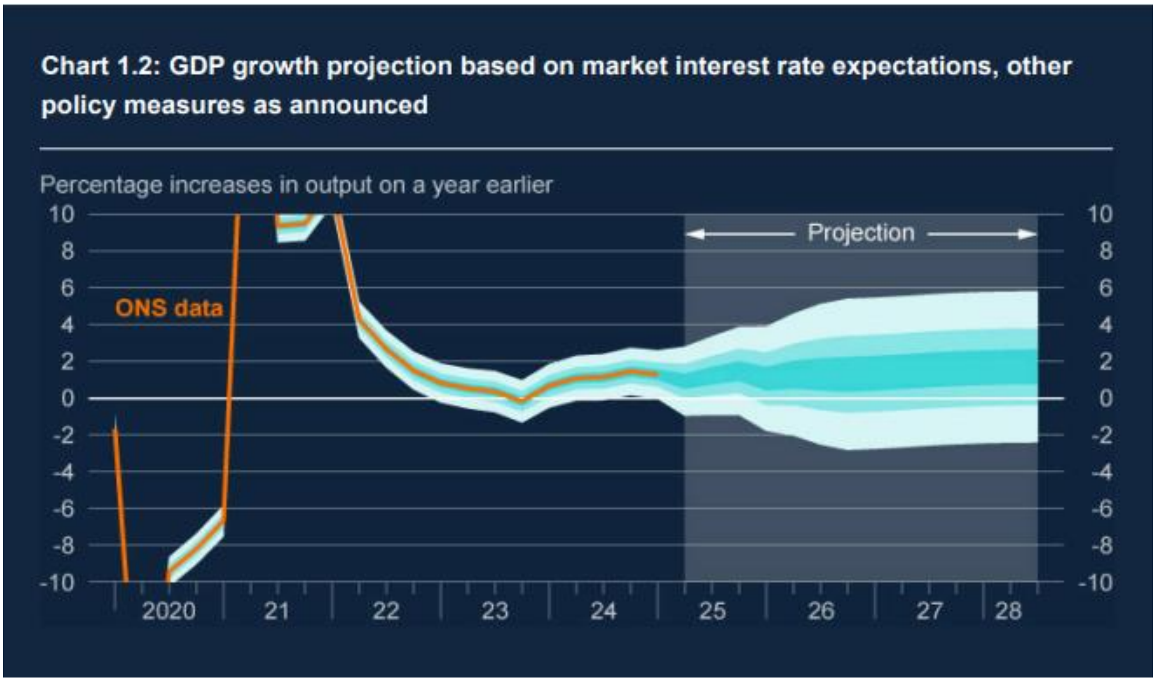
2.1.3 This combination, subdued growth, inflation still elevated above target in the near term, and restrictive financial conditions, implies persistent budget pressures across pay, utilities, index-linked contracts and demand-driven services. Programme and investment choices should continue to align with central funding frameworks (e.g., UKSPF themes and sub-themes) to maximise eligibility and outcome tracking.

2.1.4 Global conditions remain a headwind. The after-effects of the energy-price shock and wider trade uncertainties continue to filter through costs and investment decisions, with Fraser of Allander noting weaker momentum in production sectors and elevated input costs[21].

2.1.5 Independent forecasts point to only modest real income gains over the near term, consistent with subdued growth and still-elevated inflation. This implies ongoing affordability pressures for households and a cautious consumer backdrop[22].

2.1.6 Underlying activity is expected to improve only gradually as tighter financial conditions ease and confidence stabilises. Central Bank of England projections emphasise muted near-term GDP growth, with a slow recovery thereafter as previous rate increases continue to pass through. Household spending is expected to lift softly, helped by stabilising real incomes[23].

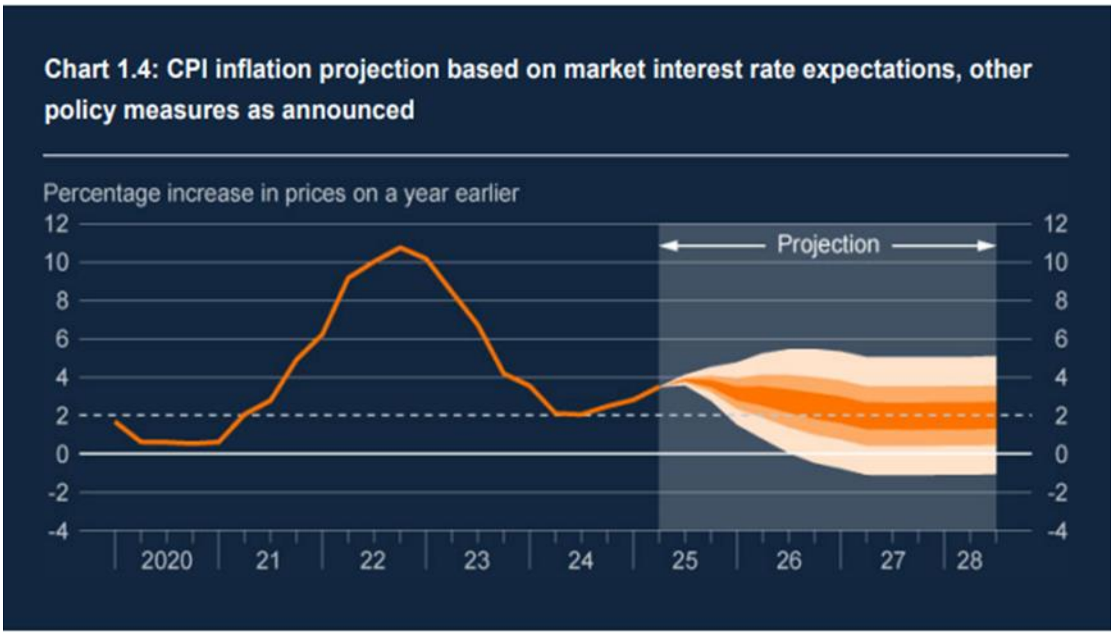
Chart 5, Bank of England, Growth Projections



[21] Fraser of Allander Q2 2025, Economic Commentary
[22] HM Treasury, Sep 2025, Forecasts for the UK economy
[23] Bank of England Monetary Policy Report August 2025

2.1.7 CPI inflation is expected to remain above target in the near term, reflecting regulated price resets and underlying domestic cost pressures, before easing back as slack builds and prior tightening feeds through[24].

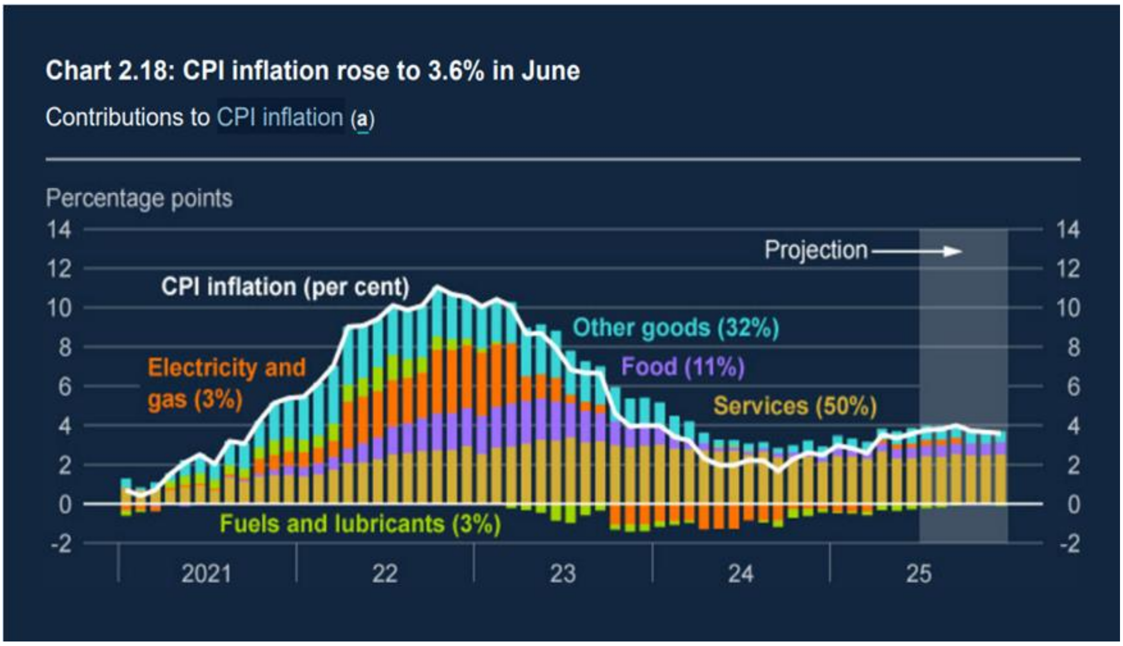
Chart 6, Bank of England, CPI Inflation Projections



2.1.8 The balance of pressures has shifted from energy and goods towards domestically driven services, with components such as housing-related costs and certain service categories remaining sticky; this helps explain why headline inflation can ease only gradually from here[25].

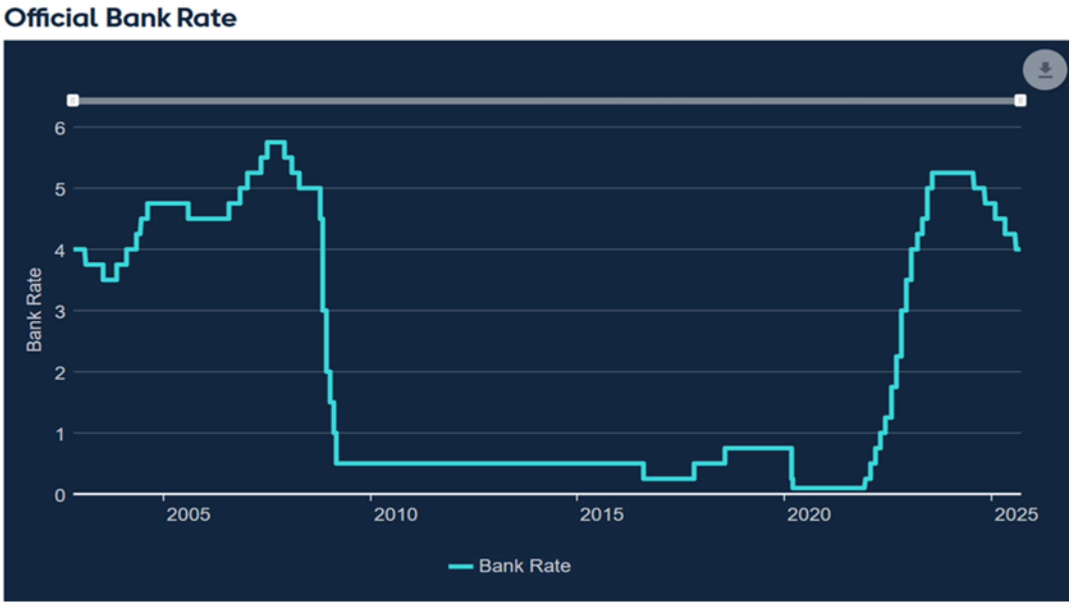
[24] Bank of England Monetary Policy Report August 2025
[25] Bank of England Monetary Policy Report August 2025

Chart 7, Bank of England, Inflation Tracker



2.1.9 Monetary policy is expected to remain restrictive until there is clearer evidence that inflation is returning to target on a sustained basis. Forward guidance points to gradual, data-dependent adjustments from here, with the transmission to credit conditions, housing and investment continuing to be the main channel through which inflation slows[26].

Chart 8 Bank of England , Bank rate

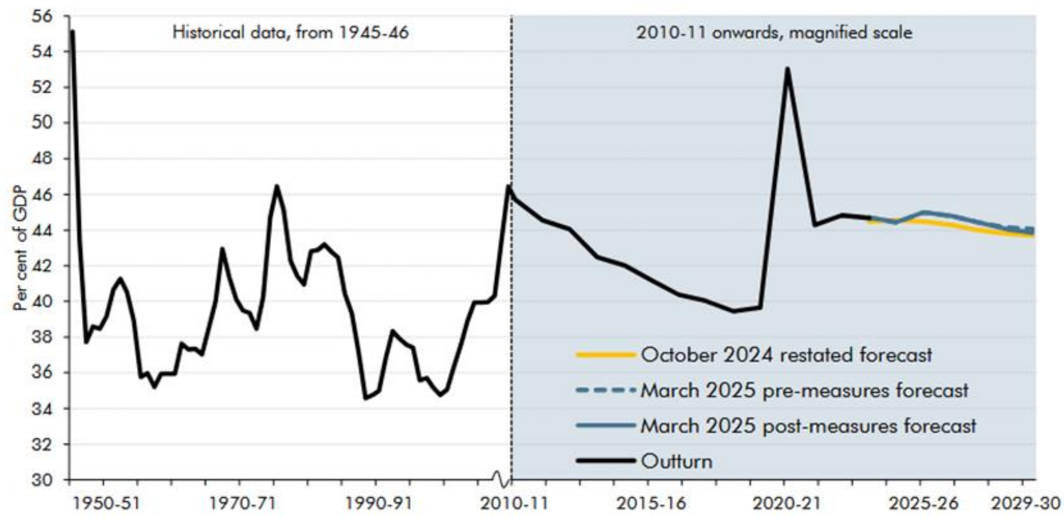


[26] Bank of England Monetary Policy Report August 2025

2.1.10 Fiscal aggregates remain tight. The OBR's latest forecast profile continues to show a constrained medium-term path for spending and borrowing, with limited room to offset domestic cost pressures without further reprioritisation[27].

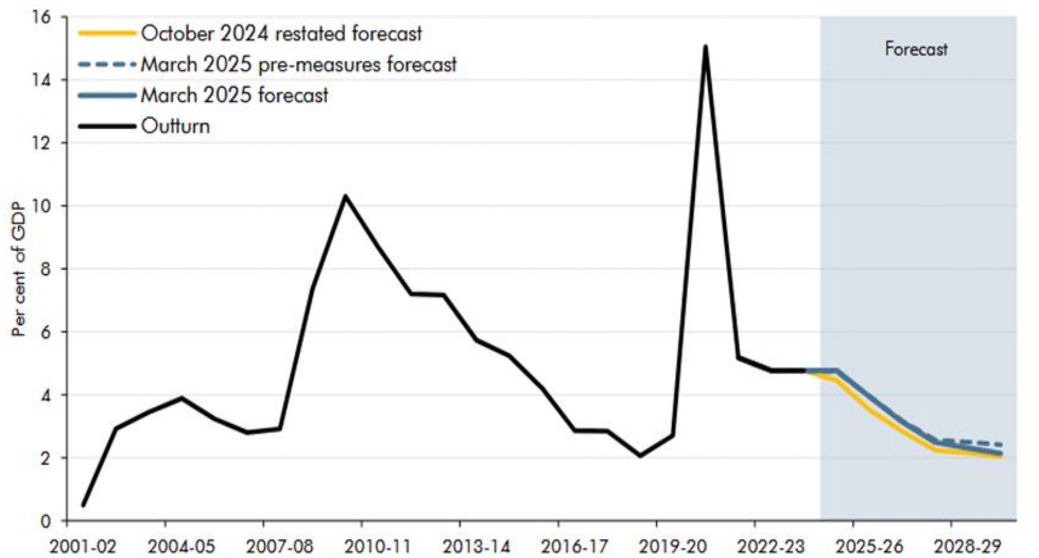
2.1.11 Latest outturns show elevated borrowing and public sector net debt at around the mid-90s per cent of GDP (ONS provisional estimate ~96%), levels last seen in the early 1960s. This reinforces the conservative funding context for local government and the importance of disciplined medium-term planning[28].

Chart 1.7: Public spending as a share of GDP



Note: The October 2024 forecast as a share of GDP has been restated to account for revised nominal GDP data in the 2024 Blue Book.
Source: ONS, OBR

Chart 6.1: Public sector net borrowing



Note: Unless otherwise stated, the October 2024 forecast as a share of GDP has been restated to account for revised nominal GDP data in the 2024 Blue Book.
Source: ONS, OBR

[27] OBR, March 2025, Economic and Fiscal Outlook
[28] OBR, March 2025, Economic and Fiscal Outlook

2.1.12 Economic inactivity among people aged 16–64 remains elevated, at around 21.1% on the latest official reading (May–July 2025). That is slightly lower than earlier in the year but still above pre-shock averages, pointing to a labour-supply drag that is only easing gradually. The OBR's March 2025 analysis likewise judges participation to be below its pre-trend and improving only slowly, with health- and caring-related inactivity continuing to weigh on labour supply, risks that keep the medium-term outlook for employment and receipts uncertain[29][30].

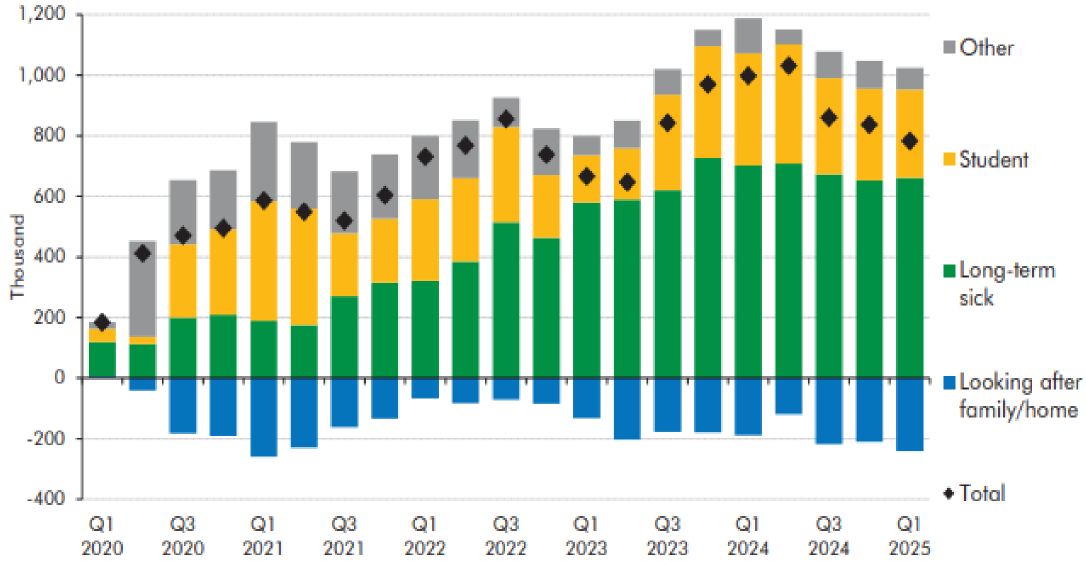
[29] OBR, March 2025, Economic and Fiscal Outlook
[30] ONS Employment in the UK: September 2025

2.2 *Other Significant External Risks*

2.2.1 The July 2025 Fiscal Risks and Sustainability report[31] by the OBR reiterates the aftershocks of three key risks that have crystallised since 2020 and although it "takes a fresh look" at their future fiscal implications, they are substantially unchanged from the 2024 report . The three areas are:

- **Health related inactivity -** Economic inactivity due to long-term sickness remains at record highs. As of mid-2025, the number of working-age people inactive due to long-term sickness is estimated at 2.8 million up from around 2.05 million pre-pandemic[32]. This group now represents about 7% of the working-age population, and the trend shows little sign of reversal. The OBR and ONS both note that only a minority of this group are on NHS waiting lists, so reducing waiting times alone is unlikely to resolve the issue. The fiscal impact is significant: higher health and welfare spending, lower tax receipts, and a drag on potential growth.

  Chart 9: the rise in UK working-age inactivity since early 2020

  Note: Changes are shown relative to December-February 2020 – the pre-pandemic low-point for the 16-64-year-old inactivity rate.
  Source: ONS

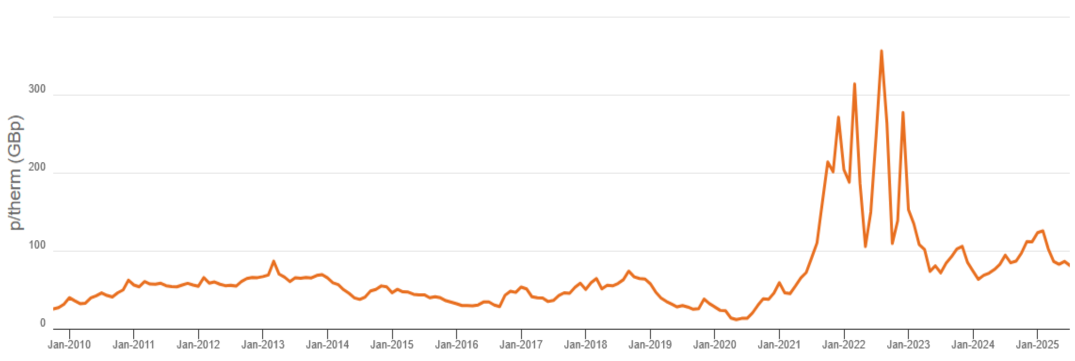
  (Note: in general, similar inactivity trends have been observable for Scotland.)

- **Rise in energy prices -** While UK wholesale gas prices have fallen back from their 2022 peak, they remain well above pre-2021 averages. In August 2025, the NBP day-ahead price averaged around 80p/therm, with forward curves indicating prices are likely to stay elevated into 2026. This keeps energy bills and industrial costs sensitive to global shocks.

[31] OBR, July 2025, Fiscal risks and sustainability

[32] (ONS, Labour Market Overview, August 2025),

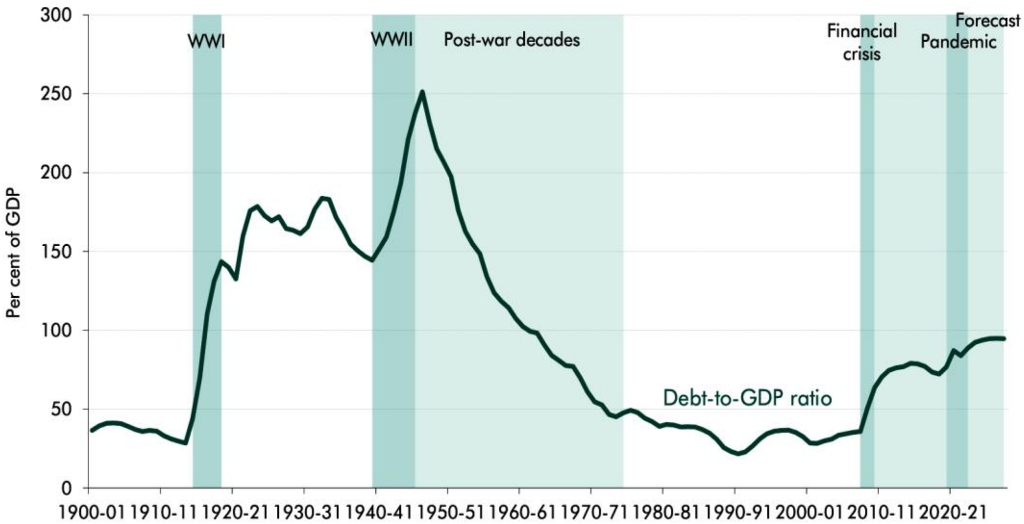
Chart 10: gas prices[33]



While these elevated gas prices have made renewable energy sources cheaper than gas for the first time, there is so far limited evidence of a strong supply side response in the UK i.e. of any step-change in renewable energy investment that might result in lower overall energy prices in the future. This lack of investment could also prove costly in the event that geopolitical events raise the price of gas again.

- **Vulnerability to rising debt levels -** UK Government debt levels have risen three-fold since the start of this century and, at around 100% of GDP, are at their highest level in over 60 years. This dramatic increase in public debt is largely due to the series of crises the UK has faced so far this century, which has also hindered any attempts to manage the debt back down to more acceptable levels.

Chart 11: debt-to-GDP ratio since 1900



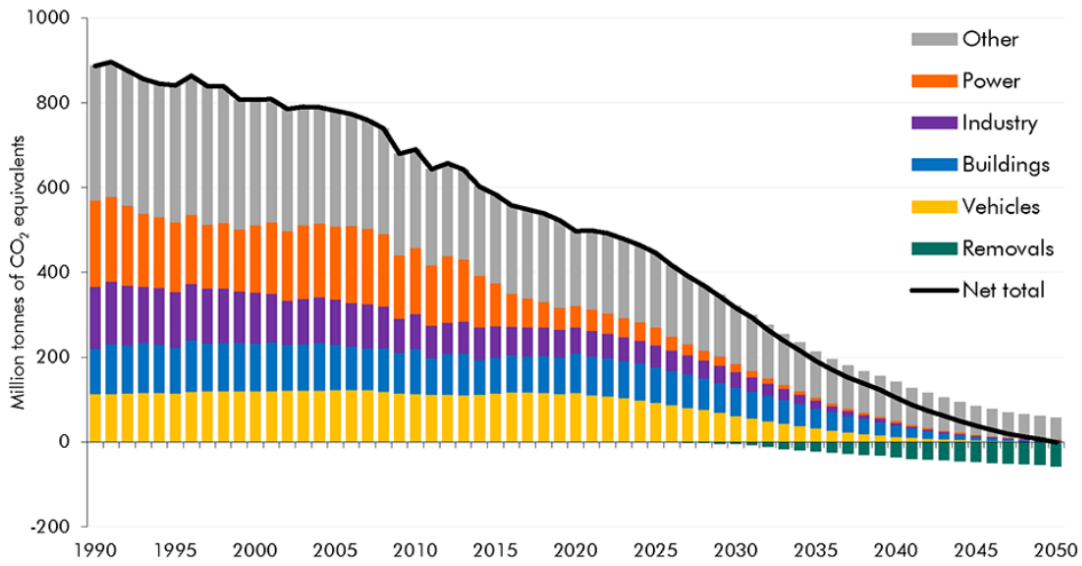
Note: This is for underlying debt, i.e. excluding Bank of England.
Source: ONS, OBR

[33] Ofgem, Sep 2025 Gas Prices

- While other governments also face rising interest rates on debts close to or in excess of 100 per cent of GDP, the UK's public debt position makes it more vulnerable as it has: -
  - the shortest average maturity on its public liabilities on record;
  - the highest proportion of inflation-linked debt of any major advanced economy;
  - more of its debt in the hands of private foreign investors than most other G7 countries (which renders the UK public finances more vulnerable to sudden changes in global investor sentiment over the attractiveness of UK sovereign assets).
- This greater vulnerability has been illustrated by a) UK government borrowing costs have risen more than in any other G7 economy and been more volatile than at any time in the past 40 years, and b) the rise in global interest rates feeding through to the UK's debt servicing costs more than twice as fast as in the past or elsewhere.

2.2.2 ***Climate Change*** – The OBR[34] says that "While the UK's territorial CO_2 emissions have fallen significantly since 1990, thanks in large part to the switch from coal to gas power generation, achieving the Government's net zero target by 2050 will become increasingly difficult. Vehicles, buildings, industry, and power make up the majority of emissions remaining in 2020, and these four sectors plus the yet-to-be-developed removals sector are the largest source of future abatement in the Climate Change Committee's (CCC's) balanced net zero pathway."

Chart 12: Emissions in the CCC's balanced net zero pathway



Source: CCC

[34] OBR, July 2023, Fiscal Risks and Sustainability

2.2.3 The Climate Change Committee (CCC) has responsibility for monitoring the progress and risks to meeting the UK's declared national ambitions (known as 'nationally determined contributions', or NDCs, under the Paris Agreement) and legislated carbon budgets, and publishes a yearly progress report to this end.

2.2.4 The OBR also points out that emerging risks include longer-term trends are becoming near-term realities. This is exemplified in relation to climate change and progress toward net zero as "Efforts to tackle climate change by transitioning away from fossil fuels are rapidly eroding the £39 billion the Government currently receives in tax revenues from petrol and diesel driven vehicles. And the rapid normalisation of interest rates over the past 18 months has added £22 billion to what the Government will need to spend on servicing its growing stock of debt in 2022-23, consuming fiscal headroom available to respond to other threats and pressures."

2.2.5 ***Exit from the European Union (EU)*** - The UK left the EU on 31 January 2020 and entered an 11-month period of transition during which the UK effectively remained within the EU's customs union and single market and continued to be subject to EU rules. That came to an end on the 31 December 2020. The latest assumptions and judgements[35] from the Office for Budget Responsibility were used relating to EU exit to underpin the Economic and Fiscal Outlook report and forecasts in March 2023.

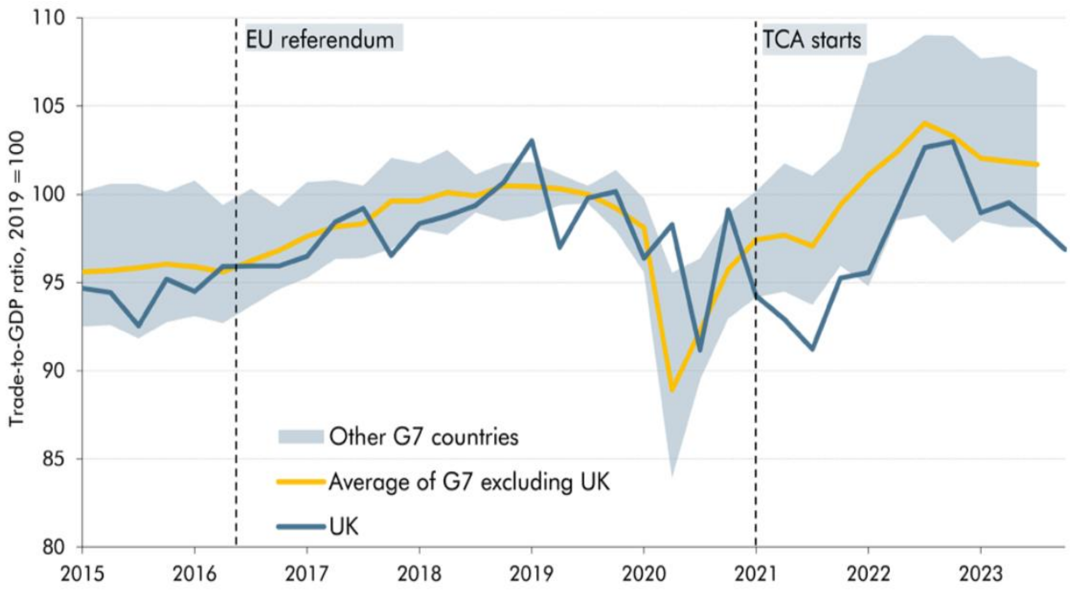
- "The post-Brexit trading relationship between the UK and EU, as set out in the 'Trade and Cooperation Agreement' (TCA) that came into effect on 1 January 2021, will reduce long-run productivity by 4 per cent relative to remaining in the EU.
- Both exports and imports will be around 15 per cent lower in the long run than if the UK had remained in the EU.
- New trade deals with non-EU countries will not have a material impact, and any effect will be gradual.
- the Government's new post-Brexit migration regime would reduce net inward migration to the UK."

Updates to these predictions were published by the OBR in 2024, indicating they are "broadly on track"[36] and that the UK was falling behind the other G7 countries for recovery of trade intensity.

Chart 13: Trade intensity in the UK and rest of the G7

[35] OBR, April 2023, Brexit Analysis

[36] How are our Brexit trade forecast assumptions performing? - Office for Budget Responsibility



Note: G7 data is only available to the third quarter of 2023.
Source: OECD

2.2.6 ***Pressures on other public sector organisations*** - All public sector organisations are under increasing financial pressure as changes in funding and increases in demand are not supported by funding. Whilst Aberdeen City has a strong record in working with partners to improve outcomes, prevent harm and increase public sector efficiency, the additional pressure on all public sector agencies may raise the risk that preventative activity, which is necessarily multi-agency in nature, may be more difficult for partners to sustain when facing increasing pressure to support responsive services. Behaviours which are not based on a whole system approach and are narrowly defined by attribution of cost benefits to individual organisations should be avoided. The recent sudden closure of Mental Health Aberdeen[37] may be seen as evidence of financial pressures mounting on partner agencies which they are unable to absorb.

2.2.7 ***Emergency Response*** - Covid-19 was the primary focus of emergency response in 2020, but other emergency events and situations are likely to occur. These may include, for example, incidents related to climate change; terrorist attacks; infrastructure issues with national implications (e.g. Grenfell Tower); further pandemics, etc. The council's own plans to respond and recover quickly and effectively from longer term emergency incidents are being further strengthened and may require further financial investment.

2.2.8 ***Corporate Liabilities*** – Local authorities are exposed to several liabilities which have significant financial pressures if they occur. For example, the cashflow and cost impact of Developer Obligations not being paid to support required asset enhancement;

[37] Mental Health Aberdeen: Charity closes due to 'growing pressure' - BBC News

litigation and claims against the council; and fines can be imposed on councils by the Health & Safety Executive, the Information Commissioner and other regulators.

2.2.9 ***Banking Sector Failures*** – The failure, in 2023, of three small American banks (Silicon Valley Bank (SVB); Signature Bank and Silvergate) caused much concern in financial circles. The chaos soon spread to other banks, in particular the Swiss bank Credit Suisse, which has now been taken over by UBS. While no other failures have arisen so far the situation remains uncertain.

2.2.10 There are two implications of note with regards to these events:

i. the banking sector remains fragile and at risk of further failures. The risks are not as high as in 2008, due to new and tougher regulations being introduced which made Banks stronger, but they are still there. Any such loss of confidence could again have knock on impacts for the wider economy via tighter lending; and

ii. with regards to the future setting of interest rates. The higher rates introduced over the past year by central banks (the Federal Reserve, the Bank of England (BoE) and the European Central Bank (ECB)) are thought to have impacted on the ability of SVB to survive and weakened the position of other banks, especially smaller US ones. Further rate rises could therefore put yet more pressure on 'at risk' financial institutions and so central banks may be more cautious than before in introducing higher rates.

2.3 The Funding Outlook – UK

2.3.1 Following the UK General Election on 4 July 2024, the incoming Chancellor of the Exchequer announced she had "instructed Treasury officials to undertake a rapid audit of public spending". The outcome was published at the beginning of August 2024, and lead to the statement by the Prime Minister of the "£22 billion hole"[38] in public finances at Prime Minister's Questions. The HM Treasury report[39] detailing the issues also stated "The government is taking action to address the pressure by: (i) identifying immediate savings to manage the pressure; (ii) setting out a clear process to the autumn and the Spending Review for reducing the pressure further; and (iii) making reforms to the spending and fiscal frameworks to prevent this happening again."

2.3.2 The immediate actions from the audit were for the 2024/25 financial year, however the medium term impacts are now becoming clearer with the publication of two UK Budgets. Savings required across departmental budgets at UK level impact on the "consequentials" of the UK Budgets, flowing into and through the Barnett formula and Fiscal Framework, that will frame the Scottish Budget.

[38] Is there a £22bn 'black hole' in the UK's public finances? - BBC News

[39] HM Treasury, Fixing the Foundations: public spending audit 2024-25

2.3.3 With the Scottish Budget continuing to be heavily reliant on the Barnett formula that distributes the Block Grant to Scotland – approximately two thirds comes to Scotland from the UK Treasury – then any changes in UK Government funding policy and the size of the UK Tax Revenues will have a material impact on Scottish public services.

2.4 The Funding Outlook – Scotland, Local Government and Aberdeen City Council

2.4.1 The primary source of funding for the delivery of Council Services is the Scottish Government through the allocation of general revenue and capital grants, and the distribution of national non-domestic rates income. In Scotland local government funding accounts for approximately a quarter of the total discretionary fiscal budget[40], in 2025/26, approximately £15.2 billion[41] (revenue and capital).

2.4.2 With approximately three quarters of the Council's net revenue funding being received through government grant it is simple to see why UK and Scottish Government policies and economic forecasts impact on the level of Council funding.

2.4.3 The Scotland Block Grant from UK Treasury is based on the Barnett Formula, adjusted to take account of taxation and fiscal powers now devolved to the Scottish Government. This adjustment is captured under the Fiscal Framework between the UK and Scottish Governments. In 2022/23 the Scottish Government announced that there would be a new deal for local government and on 30 June 2023 the Verity House Agreement was signed between Scottish Government and COSLA. The Agreement sets out principles for working together to empower local communities, tackle poverty, transform the economy and provide high-quality public services. It includes, amongst other things, a commitment to agree a new Fiscal Framework governing how local authorities' funding is allocated, reducing ring-fencing and giving them greater control over their budgets to meet local needs. It also committed to regularly reviewing councils' powers and funding, with the expectation that services will be delivered at a local level unless agreed otherwise.

2.4.4 The Scottish Government, having published a single year budget in December 2021 for financial year 2022/23, published a further suite of documents to support a multi-year funding framework for the public sector in Scotland. These documents were:

- Investing in Scotland's Future: Resource Spending Review
- Scotland's Fiscal Outlook: The Scottish Government's Medium Term Financial Strategy
- Capital Spending Review

[40] Scottish Government, December 2024, Scottish Budget 2025/26

[41] Scottish Government, February 2025, Finance Circuar 1/2025

2.4.5 Following another single year budget for financial year 2023/24, the Scottish Government produced a revised Medium Term Financial Strategy[42] in May 2023 and it highlights that while the Scottish Resource Budget is increasing up to 2027-28, in both cash and real terms, it is not expected to rise at the same rate as the spending bill, creating a growing funding gap over time. The issues raised at UK Government level over summer 2024 meant the Scottish Government did not publish an update to its own MTFS in 2024. The 2025 MTFS update was published in June 2025.

2.4.6 For financial year 2025/26 Scotland's Budget, excluding Annually Managed Expenditure (AME)[43], amounts to £56.5 billion, when presented to Parliament in December 2024. This is the element of the budget the Scottish Parliament can make decisions about.

2.4.7 From 2020/21 the Scottish budget reflects the changing picture of devolved powers, including devolved social security payments and farm payments, previously funded by the EU.

2.4.8 Notable is the adjustment to the block grant for the devolved tax raising powers that now sit with the Scottish Parliament. The size of the Scottish Budget is therefore directly affected by economic performance, through taxation revenues, in Scotland compared to the rest of the UK. Diverging economic performance could place added pressure on the Scottish Budget in future years.

2.4.9 The Scottish Fiscal Commission, in their report from August 2025[44] illustrated the expected funding gaps from the Scottish Government's MTFS 2025. Adjustments like this needed to balance the Scottish budgets will adversely affect the amount of funding available for public services, and as an unprotected public service, Local Government can anticipate feeling the pain. The Scottish Budget and associated Spending Review are now expected in January 2026.

Resource and Capital Gaps in the SG's MTFS:

[42] Scottish Government, May 2023, Scotland's Fiscal Outlook

[43] AME is specific grant funding paid by UK Government to cover costs such as NHS and teacher pensions and student loans. It amounts to about £7 billion per annum.

[44] Scottish Fiscal Commission, May 2023, Scotland's Economic and Fiscal Forecasts (revised June 2023)

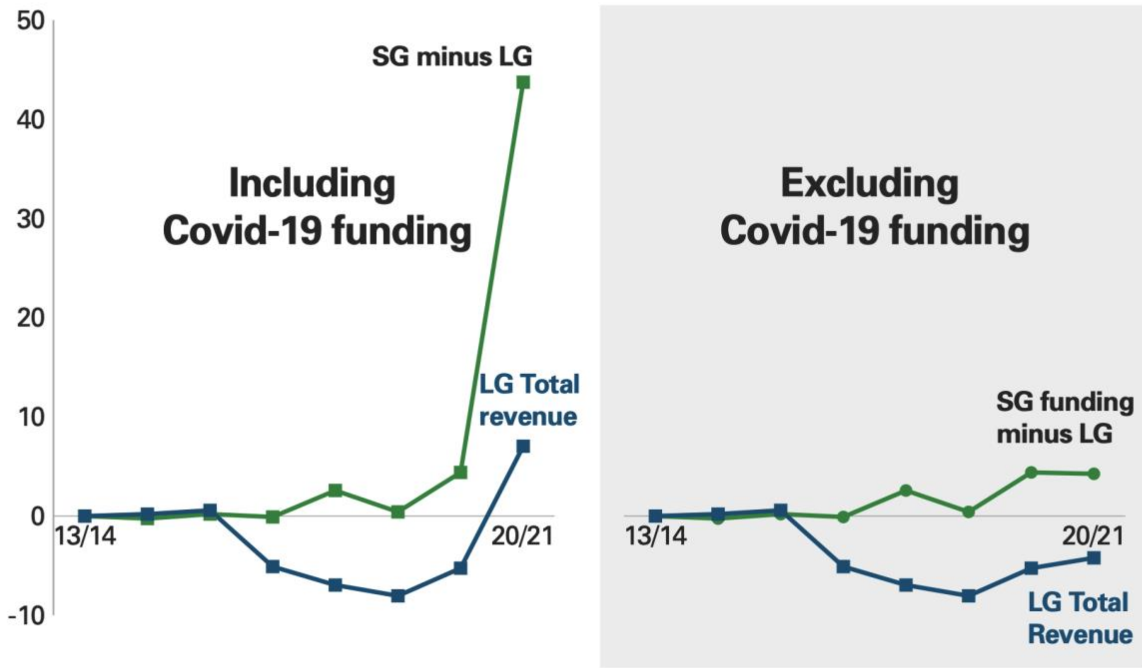
£ million (nominal terms)	2026-27	2027-28	2028-29	2029-30
Resource				
Funding	53,975	55,235	57,100	59,099
Spending	54,938	57,132	59,453	61,723
Gap	-963	-1,897	-2,353	-2,624
Capital (excluding FTs)				
Funding	7,109	7,004	7,059	7,067
Spending	8,180	8,501	8,962	9,213
Gap	-1,070	-1,497	-1,903	-2,146

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding.

2.4.10 At this point worth of note is that it is impossible to get away from the shortfall in funding that has been provided to Local Government in Scotland for the last decade. The Accounts Commission published, its Local Government in Scotland Overview report[45] on 25 May 2022, which continued to highlight the long-term position that Local Government is the poor relation of other parts of the Scottish public sector, excluding the effects of Covid-19 pandemic funding "…councils' underlying cumulative funding has fallen by 4.2 per cent in real terms since 2013/14. This is in contrast to an increase of 4.3 per cent in Scottish Government funding of other areas of the budget over the same period." This can be illustrated in the following chart.

Chart 14: Comparison of real terms changes in revenue funding in local government and other Scottish Government areas (including and excluding Covid-19 funding)

[45] Accounts Commission, May 2022, Local Government in Scotland Overview 2022

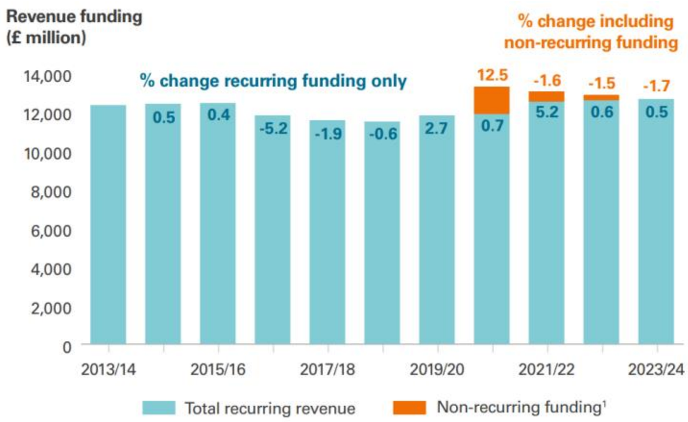


Source: Finance Circular 5/2021 and Scottish Government budget documents

2.4.11 This has not been corrected in the last three years and in the Accounts Commission's report on Local Government in Scotland : Overview 2023[46] with only 2.6% increase in real terms in funding over the decade from 2013/14. This covers a period when Council Tax was frozen and funding was being provided instead. This means that the key fiscal lever that Local Government has could not be exercised to mitigate the demand and cost pressures, and it was neutralised again by the First Minister's announcement for 2024/25.

Chart 15: Scottish Government revenue funding to local government (in real terms) and year-on-year percentage change, 2013/14 to 2023/24

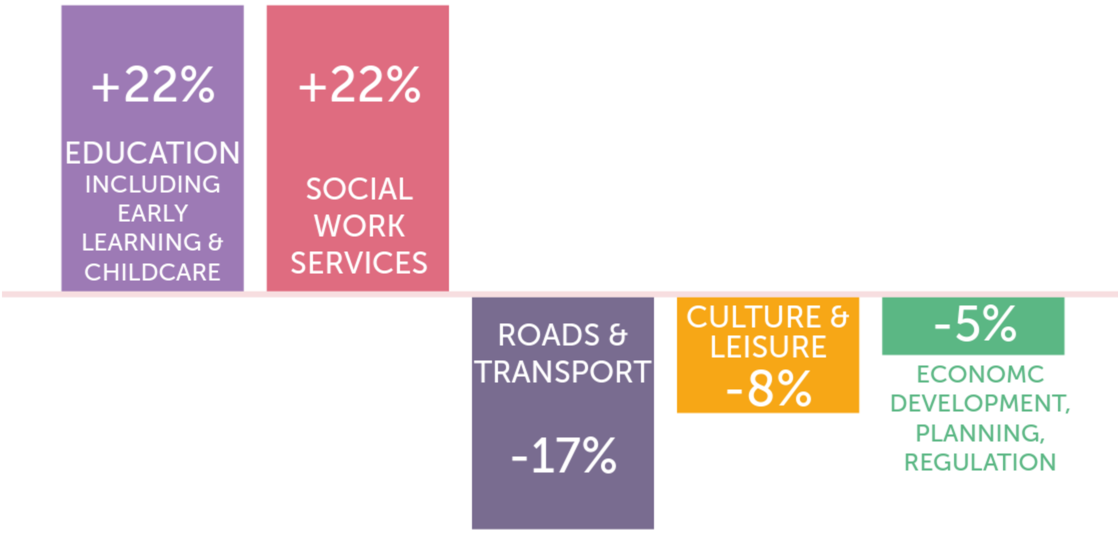
[46] Accounts Commission, May 2023, Local Government in Scotland: Overview 2023



Notes:
1. Non-recurring funding refers to Covid-19 related funding in 2020/21 and 2021/22 and cost-of-living support for council tax bills in 2022/23.
2. We use the finance circulars to compare the funding position year-on-year as we believe this is the most accurate comparison.
These figures include funding for national policy initiatives and transfers from other portfolios. Figures calculated at 2023/24 prices.
Source: Scottish Local Government Finance Circulars

2.4.12 The quantum of the local government settlement is not the only issue arising, as the funding context for Scotland is one that is driven strongly by national policy and commitments. This is seen in the extent to which the local government budget is truly determined locally. According to the Convention of Scottish Local Authorities (COSLA), in its "Live Well Locally" budget campaign documentation[47] states that "Over recent years, Local Government's total funding has reduced in real terms – and at the same time, Scottish Government has prioritised & ring-fenced spend in areas like education & social work. So while spend in these areas has gone up, less resource overall means it has been at the expense of areas like economic development, roads & transport, all critical in attracting investment, developing businesses, creating jobs and addressing climate change." Information collected for Scotland shows how stark the disparity is.

Chart 16: Change in net revenue expenditure between 2013/14 and 2021/22 (Estimate)

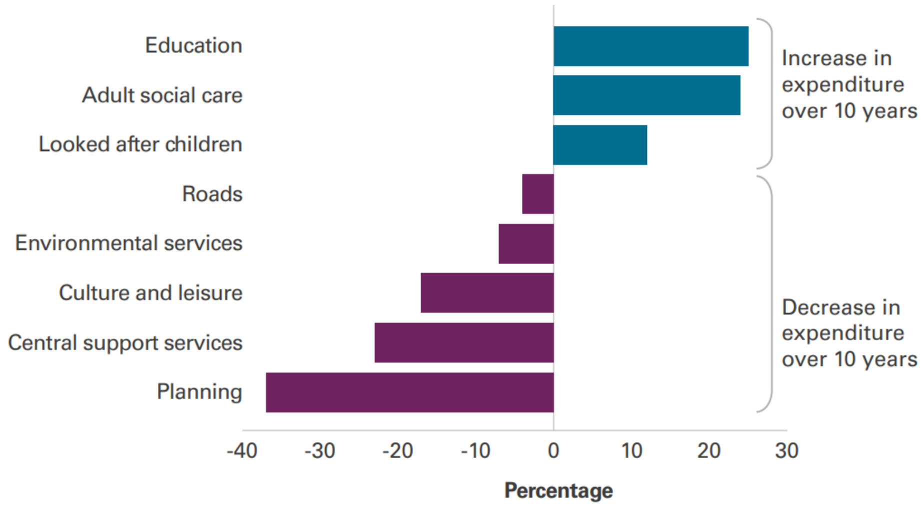


[47] COSLA, December 2021, Live well locally campaign

Source: COSLA, Live well locally

2.4.13 The Accounts Commission[48] presented a similar picture in its 2023 report, reinforcing the extent to which national policy is shaping the allocation of resources at a local level.

Chart 17: Percentage change in expenditure (in real terms) by service from 2012/13 to 2021/22



Note: Economic development and Tourism services have seen a 43 per cent increase over the period. We have excluded this from the chart as year-to-year expenditure is volatile and there is not a consistent trend in spending over this period.

Source: Local Government Benchmarking Framework, 2021/22

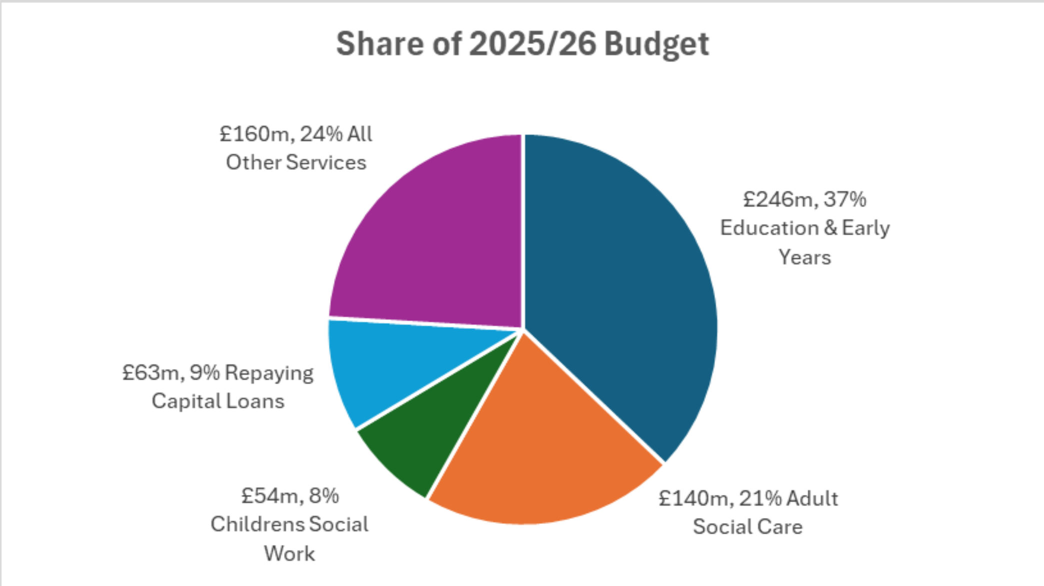
2.4.14 One major change in national policy since the Council's MTFS 2024 was published has been confirmation from the Scottish Government that the National Care Service plans have been abandoned. In their place, a new National Care Service Advisory Board has been established[49].

2.4.15 The statement from the Minister "…we must deliver our Scottish National Care Service without legislating for structural reform…" means Council resources that might have shifted to the proposed national Care Service will now stay with the Council. This does not mean changes will not happen, though they will be within the context of our existing Council services, and our Integrated Joint Board for Adult Social Care.

Chart 18: General Fund Budget 2025/26

[48] Accounts Commission, May 2023, Local Government in Scotland: Overview 2023

[49] Future of the National Care Service: Ministerial statement – January 2025



2.4.16 The dominance of Education presents a major challenge given the extent of national policy driving prioritisation and national conditions that are in place for these services, whether these be teacher pay and conditions, financial settlement conditions on pupil teacher ratios. It potentially limits the extent to which local decisions can make changes to the way our resources are allocated, likely shifting the focus for savings and income generation to those that are of a different nature, operational, support and enabling services.

2.4.17 Instead of the potential removal of services related to the National Care Service, the Council must now refocus its planning on the financial sustainability of those services. As reported in the Council's Audited Accounts, *"In 2024/25 the IJB reported a deficit of £17.036m. This deficit was funded from IJB reserves (£6.550m), and the NHS (£6.445m) and Council (£4.041m) as per the partnership agreement. The Council's share of the IJB deficit was paid from earmarked reserves, as approved by the Finance and Resources Committee in February 2025".*

2.4.18 Additional funding was provided by the Council's 2025/26 budget, represented in the chart above.

2.4.19 The IJB received an update to its Medium Term Financial Forecast on 1 July 2025, noting *"…the changes which need to be actioned within the cost base to work towards bringing financial balance. Scenario planning is used to highlight how financial sustainability is impacted if varying levels of savings are achieved."*[50] On-going

[50] Health and Social Care Partnership MTFF paper, July 2025

progress will be monitored closely by both the Council and NHS Grampian as any shortfall in IJB funding would require to be provided under the partnership agreement.

2.4.20 The Scottish Governments publication of multi-year financial forecasts in the Resources Spending Review[51] (RSR) provided much more about the future, that the Council can learn from, in particular the shape of local government finance for the remainder of the current Scottish Parliament session.

2.4.21 The RSR demonstrated a de-prioritisation of local government, which has not been reversed despite the huge roles that Councils can play. The priorities spelt out were:

"…four key challenges – reducing child poverty, addressing the climate crisis, building a strong and resilient economy and helping our public services recover strongly from the pandemic."[52]

2.4.22 For local government the message was simple. A commitment to flat cash settlements for the period 2022/23 to 2025/26, with an additional £100m (c.1%) in 2026/27.

2.4.23 The detail is of course far from simple and local government receives its current funding from a variety of portfolios, spread across the Scottish Budget (i) a core 'Local Government' allocation; and (ii) additional sums transferred from other ministerial portfolios, such as Education, Justice and Health. The RSR confirms that the core allocation of £10.6bn will be maintained throughout the period of the spending review, with that additional £100m in the final year. It is not until the letter from the Cabinet Secretary is read carefully that a sum of £1bn per annum is guaranteed to be transferred from those portfolios during the period of review can any assurance be secured that the local government settlement will be anything like flat cash.

2.4.24 In the intervening period since publication of the 2022 RSR we have seen a UK General Election, a new UK Government, and intense review of public finances. Spending decisions taken by the UK Government are impacting on the Barnet formula which determines the Scottish Block grant, resulting in a lower than expected settlement for the Scottish Government in the final years of the current RSR.[53]

2.4.25 The 2025 MTFS from the Scottish Government does nothing to dilute the risks facing local government and suggest any significant improvement in our prospects of additional core funding.

2.4.26 While it is important to take from the Scottish Government documents the financial conclusions, it also worth highlighting other points associated with Local Government:

[51] Scottish Government, May 2022, Resource Spending Review

[52] Kate Forbes, Cabinet Secretary for Finance and the Economy, Scottish Government, Resource Spending Review, 31 May 2022

[53] Scottish Government, Medium Term Financial Strategy, June 2025

"…key elements of this vision will not directly apply to local government…"

"…a 'new deal' for Local Government in Scotland through the development of a Partnership Agreement and Fiscal Framework."

2.4.27 On 30 June 2023, the First Minister and the COSLA President signed a Partnership Agreement that by both see as a landmark. Known as 'The Verity House Agreement', it signifies a shared vision for a more collaborative approach to delivering our shared priorities for the people of Scotland.

2.4.28 It sets out principles for working together to empower local communities, tackle poverty, transform the economy and provide high-quality public services. It includes commitments to:

- agree a new Fiscal Framework governing how local authorities' funding is allocated, reducing ring-fencing and giving them greater control over their budgets to meet local needs
- regularly review councils' powers and funding, with the expectation that services will be delivered at a local level unless agreed otherwise
- incorporate the European Charter of Local Self-Government into Scots Law
- reform public services, building on the partnership working established during the pandemic recovery
- develop a framework for collecting and sharing evidence to ensure progress is maintained.

2.5 Scottish Government Funding

I. The allocation of resources by Scottish Government across the Scottish public sector portfolios is somewhat clearer following the publication of the Resource Spending Review. This is the basis for assumptions.

Table 1:

Upside Scenario	**Central Scenario**	**Downside Scenario**
2025/26 to 2030/31 – flat cash settlement for underlying duties and obligations, with between 1.5% cash increase annually over and above central scenario to support core services. No changes incorporated for Reduction in Class Contact Time (RCCT).	2025/26 increases for expected funding in support of Pay Awards. 2026/27 – flat cash settlement for underlying duties and obligations. Assumed that additional funding will be received for additional expenditure commitments through	2026/27 to 2030/31 – flat cash with additional impact of distribution formula leading to lower grant, estimated at 0.2% annually. Assumed that additional funding will only be received for additional expenditure commitments through policy changes.

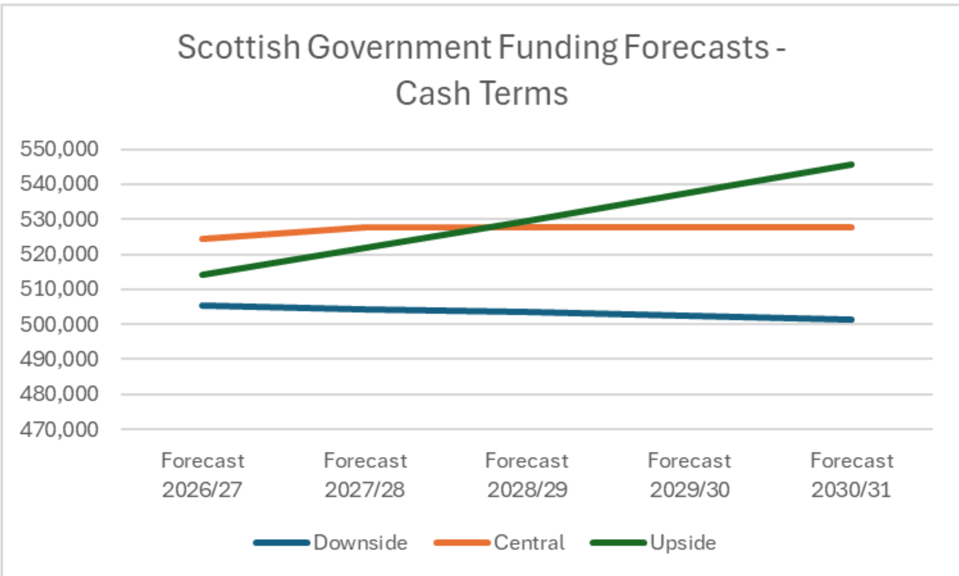
	policy changes (e.g. RCCT).	

II. The level of "protection" that Scottish Government applies to its political priorities delivered by local government is also quantified. The direction increase from Scottish Government in 2023/24 with the direction in regard to teacher numbers and pupil support hours, add this to ring-fenced grants, such as Early Learning and Childcare, and the requirement to maintain health and social care funding there is significant impact of this direction.

Table 2

Upside Scenario	**Central Scenario**	**Downside Scenario**
Mainstream national priorities and provide flexibility shifting resource protection to less than 10%.	Current level of protection continues, 45% of resources directed nationally. The Verity House Agreement moves this towards the upside scenario by middle of MTFS period	Greater control directed nationally to deliver national priorities, raising protection to over 50% of local government resources.

Chart 19: Scottish Government Grant Scenarios



III. From an approved 2025/26 budget level of government funding of £506m, the central scenario tracks the most likely scenarios for funding, including the impact of potential Scottish Government policies and the assumption that the Scottish Government will fund the proposed Reduction in Class Contact Time (RCCT) for

Teachers. The Upside scenario excludes the costs of this new initiative, which means the funding also has to be excluded, giving a slightly counter-intuitive result for 2026/27. The “flat cash” assumptions on the government grants for later years in the Central scenario generates the crossover with the Upside scenario in later years. The downside shows a regular reduction in funding. By year 5, 2030/31 there is a funding range, upside to downside of £44m.

2.6 Council Tax

2.6.1 Limits placed on funding local government receives means that local authorities must turn to the fiscal levers they have, to exercise control and to influence the level of income they have, to pay for services. Primarily this means looking carefully at the power to raise funds locally from Council Tax, and to review / apply fees and charges for services that are delivered.

2.6.2 Exercising discretion over these fiscal levers is, again, not straightforward. The local government financial settlement has, for over a decade put restrictions on the most significant fiscal lever local authorities have, setting the Council Tax. A cap on Council Tax increases was introduced in 2017/18, following a nine-year Council Tax freeze, from 2008/09. The initial cap condition was absolute in cash terms at 3% and in 2019/20 a real terms limit of 3% was introduced, the cash limit therefore being higher. Despite this it offers local authorities limited opportunity to raise the funds they need to meet rising costs. For 2021/22 the council again was offered funding to avoid an increase in Council Tax. For Aberdeen City this was the equivalent of a 3.3% increase in the rate. The Council accepted this offer (as all local authorities did).

2.6.3 In 2022/23 the cap was removed and for the first time since 2007/08 the Council was free to set a Council Tax rate for Aberdeen. An increase of 3% was approved, in the context of the concerns around the cost of living and affordability locally, and this has been followed by a 5% increase in the rate for 2023/24.

2.6.4 For 2024/25 the Council Tax freeze was reintroduced, the First Minister’s response to the cost of living crisis. This removal of the fiscal lever, supposed to be in the control of individual local authorities, lead to widespread criticism by Cosla[54] and two Councils (Argyll and Bute, and Inverclyde) initially voting to increase Council Tax as part of their 2024/25 budgets, before reversing those decisions and accepting the offer of additional funding from the Scottish Government.

[54] Cosla declares 'dispute' with ministers over funds - BBC News

2.6.5 No cap or Council Tax freeze was in place for 2025/26, and most Council's approved significant increases, ranging from 6% to 15.6%[55] with the average across Scotland being 9.57%. Aberdeen City Council agreed a 9.85% increase.

2.6.6 Limiting the value and / or missing the opportunity to increase Council Tax undermines the future value of this funding stream for the council. The underlying assumption is that Council Tax income will have to be increased. The Scottish Government has, so far, given no indications of any caps or freezes being applied to Council Tax for 2026/27.

2.6.7 It is worthy of note that the Scottish Government's Programme for Government[56], published in 2023 committed "…to reforming Council Tax to make it fairer, working with the Scottish Green Party and COSLA to oversee the development of effective deliberative engagement on sources of local government funding, including Council Tax, that will culminate in a Citizens' Assembly."

2.6.8 The dissolution of the SNP / Green alliance at Holyrood, and the Council Tax freeze announced for 2024/25 appeared to pause progress concerning the review of Council Tax Bands E-H. The two updates to the Scottish Government's Programme for Government since then have been silent on any major plans for Council Tax reform, though the latest publication states a commitment to *"….removing the legislative constraint on the level of council tax premium that can be applied to second and long-term empty homes"*[57] as a response to tackling homelessness. It is safe to assume any further Council Tax reform is unlikely to be progressed within the life of the current Parliament.

2.6.9 Conclusion:

I. The Council Tax valuation roll is anticipated to increase with additional housing continuing to be built in the city. For this reason the underlying value of Council Tax collectable before increasing the Band D rate tracks an upward trend. The upside and downside scenarios reflect greater or fewer houses being added to the roll annually.

II. The chart below does not include the impact of a rate increase; however the recommendation is 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.

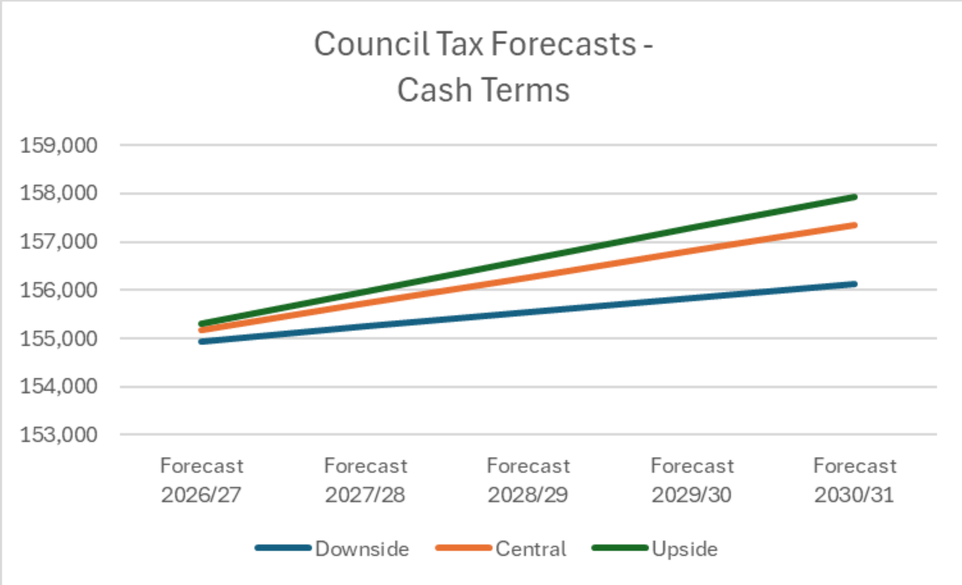
III. The future of Council Tax reform remains unclear.

Chart 20: Council Tax Scenarios

[55] Accounts Commission, Local Government Budgets 2025/26, May 2025

[56] Scottish Government, Programme for Government, 7 September 2021

[57] Scottish Government, Programme for Government, 6 May 2025



2.7 *Fees and Charges*

2.7.1 Fees and charges are an important source of funding for local authority services, and some provide a positive inflow of cash to support the overall revenue budget, a common example being car parking income. Other external income raised through fees and charges will often recover a proportion of the cost of delivering a specific service, lowering the overall cost to the General Fund revenue budget. Securing an income from a strong customer base, with repeat use can help to avoid public subsidy for discretionary services.

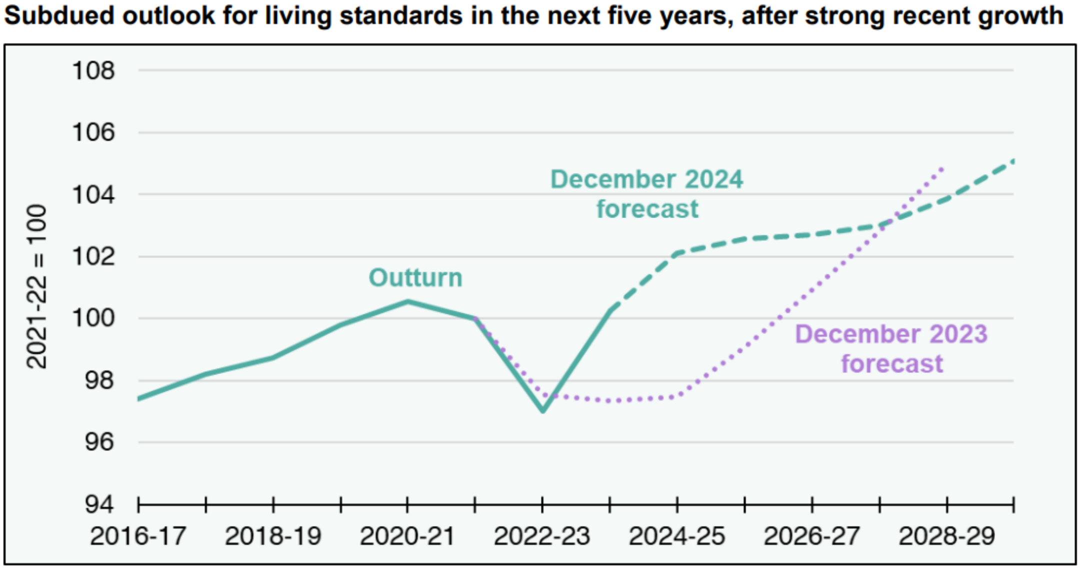
2.7.2 Statutory and regulatory limits do hinder local government and in areas of planning and licensing, for example, the price paid by the customer is not set by the council and does not cover the cost of services delivered.

2.7.3 In the post-pandemic changed environment forecasts for income from fees and charges is far from certain and continues to be affected by on-going behaviour changes from customers, citizens and visitors, as well as economic conditions. While this will be captured in the current year through the quarterly financial performance reports, looking ahead it is clear that careful consideration of the opportunities and gaps that exist in our income base need to be considered. The forecasts for now are prudent.

2.7.4 The resilience framework (Section 6) looks at the income streams on which the Council relies, and Appendix 1 provides details of the top 20 funding streams that shows just how important that customer income is to the Council.

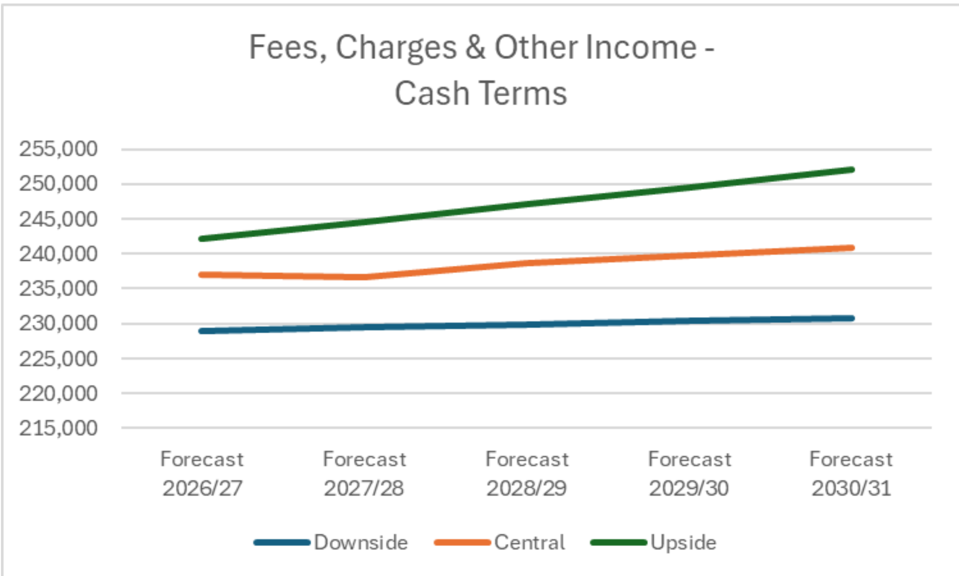
2.7.5 There is an undoubted challenge with balancing the need for income by the Council in the context of a cost of living crisis and the signs that the level of household disposable income may influence how much demand is placed on the Council. The Scottish Fiscal

Commission (SFC) stated in their recent report[58] that *"….lower-income households are more likely to experience pressure on their living standards. This is mainly because they spend a larger share of their income on essentials such as energy, food, and housing, for which price levels are still higher than they were before 2022-23. Overall, while recent performance has been above expectations, our longer-term outlook for living standards is largely unchanged. We now expect weaker growth from 2025-26 onwards, mainly as real earnings growth slows, meaning that by 2027-28 living standards are similar to our last forecast."*



2.7.6 Conclusion:

Chart 21: Fees and Charges Scenarios



[58] Scottish Fiscal Commission, December 2024 (revised January 2025), Scotland's Economic and Fiscal Forecasts

2.8 Discretionary Powers

2.8.1 Beyond these fiscal powers local authorities have very limited access to raise monies. Recent actions to open opportunities to local authorities has centred on infrastructure-based levies, including road pricing, workplace parking and an infrastructure levy included in the Planning (Scotland) Act 2019.

2.8.2 While there is a mixed picture of legislation already in place to support new levies, further regulation and statutory instruments are required to provide local authorities the powers to implement more of them. The timeline for introducing the Aberdeen Visitor Levy demonstrates how long it can be before local authorities can draw any benefit from such fiscal freedoms.

2.8.3 The Programme for Government committed the Scottish Government to devolving the Empty Property Relief in connection with Non-Domestic Rates. The intention being to level the playing field for all non-domestic properties, the Scottish Government will help local authorities tackle a known avoidance tactic on empty non-domestic properties. This came into effect from April 2023.

2.8.4 The Visitor Levy (Scotland) Bill[59] was passed on 28 May 2024, and became an Act on 5 July 2024. The Council has now determined a Visitor Levy Scheme will be introduced in Aberdeen[60], with a 7% levy rate to be applied to overnight accommodation from 1 April 2027. The levy, which will apply to visitors staying in overnight accommodation within the city, aims to provide a sustainable source of funding to reinvest in the visitor economy, including business and leisure tourism services, improvement of local amenities, and promotion of the city. The main purpose is to drive the continued growth of Aberdeen's visitor economy.

2.8.5 Potential Cruise Ship aspects of the Visitor Levy Bill were removed and are now making their way through a separate legislative process. The Scottish Government ran a formal consultation on the proposed levy in early 2025 and are currently considering responses.

2.8.6 The Circular Economy (Scotland) Bill[61] was passed on 26 June 2024 and became an Act on 8 August 2024. The purpose is to introduce measures as part of the transition to a circular economy that require primary legislation, and to modernise Scotland's waste and recycling services. This includes Reducing waste; Increasing penalties for littering from vehicles; and Making sure individual householders and businesses get rid of waste in the right way.

2.8.7 Conclusion:

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[59] Scottish Parliament, May 2023, Visitor Levy (Scotland) Bill

[60] Finance and Resources Committee, 6 August 2025, Item 12 – Visitor Levy – CR&E/25/179

[61] Scottish Parliament, August 2024, Circular Economy (Scotland) Bill

I. Table 3: Analysis of Emerging Discretionary Powers

Discretionary Powers	**Primary legislation in place (yes/no)**	**Required statutory regulation in place (yes/no)**	**Anticipated year we can expect to be able to use power?**
Visitor Levy	Yes	Yes	2027/28. Power exercised by decision of Finance & Resources Committee
Cruise Ship Levy	No	No	Unclear. Ministers are considering results from formal consultation run earlier this year.
Workplace Parking Levy	Yes. Transport (Scotland) Act 2019	No.	Unclear
Infrastructure Levy	Yes. Planning (Scotland) Act 2019	No. The power to make regulations about an infrastructure levy is not yet in force and, as such, no regulations have been made.	Unclear. Planning (Scotland) Act 2019 provides that the power to introduce a levy will lapse by 25 July 2026. Ministerial discussions are now focussing on alternative delivery mechanisms such as reviewing Developer Obligations.
Non Domestic Rates Empty Property Relief	Yes	Yes.	2023/24. Power exercised as part of budget.
Circular Economy	Yes	Yes	Estimate 2026/27 at earliest, requires Parliamentary process allowing 90 days for representations to the first set of proposed regulations

II. As the underlying statutory framework is not yet in place the scenario plans have not been affected by additional income arising from exercising these powers. (In the case of the Visitor Levy, a budget option has been prepared relating to future financial years, and will be duly considered in the detailed preparation of the 2026/27 budget).

III. The council should continue to identify and evaluate emerging discretionary powers on a regular basis to determine their applicability to Aberdeen City.

3. THE CONSOLIDATED MEDIUM-TERM OUTLOOK FOR THE GENERAL FUND

3.1 Medium Term Financial Strategy – Quantification of the Funding Gap

3.1.1 Overall, the medium-term outlook is that increasing demand and pay and price inflation will drive costs up at a faster rate than the council can expect to raise income. This only got more difficult as inflation increased and peaked at levels not seen for forty years. Although inflation levels have now stabilised to more familiar levels in line with Bank of England targets, sensitivity to further economic shocks remains and it does not mean prices are not continuing to increase. Unless funding is provided through the range of income streams, but fundamentally from Scottish Government grant then there is a question of the sustainability of local government. It is difficult to see the same level of services being delivered over the course of the medium term horizon as are in place today.

3.1.2 Details of the key assumptions are contained in the tables below. The calculations that flow from these assumptions reveal a particular sensitivity to Scottish Government funding levels and general pay and price inflation assumptions, while key components of the demand underpin rising costs, such as population demand changes.

Table 4: Funding and Income (percentages are shown in cash terms)

Source	Description	Upside Scenario	Central Scenario	Downside Scenario
Scottish Government Revenue Grant	Combined grant income from General Revenue Grant and Non-Domestic Rates.	Year 1- 5 1.5%	Year 1 – 5 1.0%	Year 1 – 5 -0.2%
Council Tax	Increasing the rate is a council decision made at budget setting time, the Band D rate has therefore not been increased in any scenario. The budget decision will provide a solution to address the scenarios. (For 2025/26 the approved increase was 9.85%). It is expected that Council Tax income will be increased in 2026/27 to reflect a real terms increase, and while there is no imposed Council Tax cap now applied to the rate by Scottish Government, this support the funding of the rising cost of services and inflation in pay and prices that cannot be absorbed by the Council.			
Council Tax	Tax base increase from additional chargeable properties.	Year 1-5 total 2,850 properties	Year 1-5 total 2,345 properties	Year 1-5 total 1,290 properties
Fees, Charges and Other Income	External income raised from customers. Approval for rate increases is a council decision, therefore rates charged in 2025/26 have continued to be applied to each scenario. The budget decision will provide a solution to address the scenarios. Similar to Council Tax, careful consideration of the full cost recovery, the impact that inflation is having on the cost of delivering chargeable services must be taken into account when setting annual charges across the MTFS period.			

Fees, Charges and Other Income	External income changes due to economic conditions.	Year 1 -5 Additional £2.5m	Year 1 Stable income	Year 1 £6m loss & return to current over 8 years
One-off funding streams	2025/26 Budget made use of Balance Sheet resources and one-off funding streams these must be replaced as they are non-recurring.			

Table 5: Expenditure (percentages are shown in cash terms)

Source	**Description**	**Upside Scenario**	**Central Scenario**	**Downside Scenario**
Inflation	Pay (The 2026/27 Pay award is already agreed for some pay groups, otherwise the Upside scenario would be lower).	Year 1 3.5%; Year 2-5 2% Pay award funded by SG grant if greater than assumptions	Year 1 3.5%; Year 2-5 2% Pay award funded by SG grant if greater than assumptions	Year 1-3 4%; Year 4-5 3.0% Pay award funded by SG grant if greater than assumptions
Government Policy	National Insurance	Year 1-5 0% No further increases beyond 2025/26	Year 1-5 0% No further increases beyond 2025/26	Year 1-5 0% No further increases beyond 2025/26
Inflation	Price – including contracts, grants and ALEOs	Year 1 – 5 1.0%	Between 2.7% and 2% p.a.	Year 1 – 5 3.0%.
Inflation	Utilities, including Gas, Electric, Heating Oil, Water	Gas 1.0% Electricity 1.0%	Gas 1% Electricity 1% rising to 5.7%	Gas 6.0% Electricity 6.0%
Population Demand	Children, schools impact	School roll slower	Total Year 1-5 Stable	School roll increases
Capital Investment Demand	Capital Financing	Year 1 3% Year 2 3% Year 3 3% Year 4 0.5% Year 5 0.5%	Year 1 3% Year 2 10% Year 3 7% Year 4 1% Year 5 0%	Year 1 7% Year 2 14% Year 3 10% Year 4 5% Year 5 5%
Capital Investment – Local Policy	Loans Fund Repayment		Asset Useful Life = Average 40 years; and Interest Rate = Average 5%	

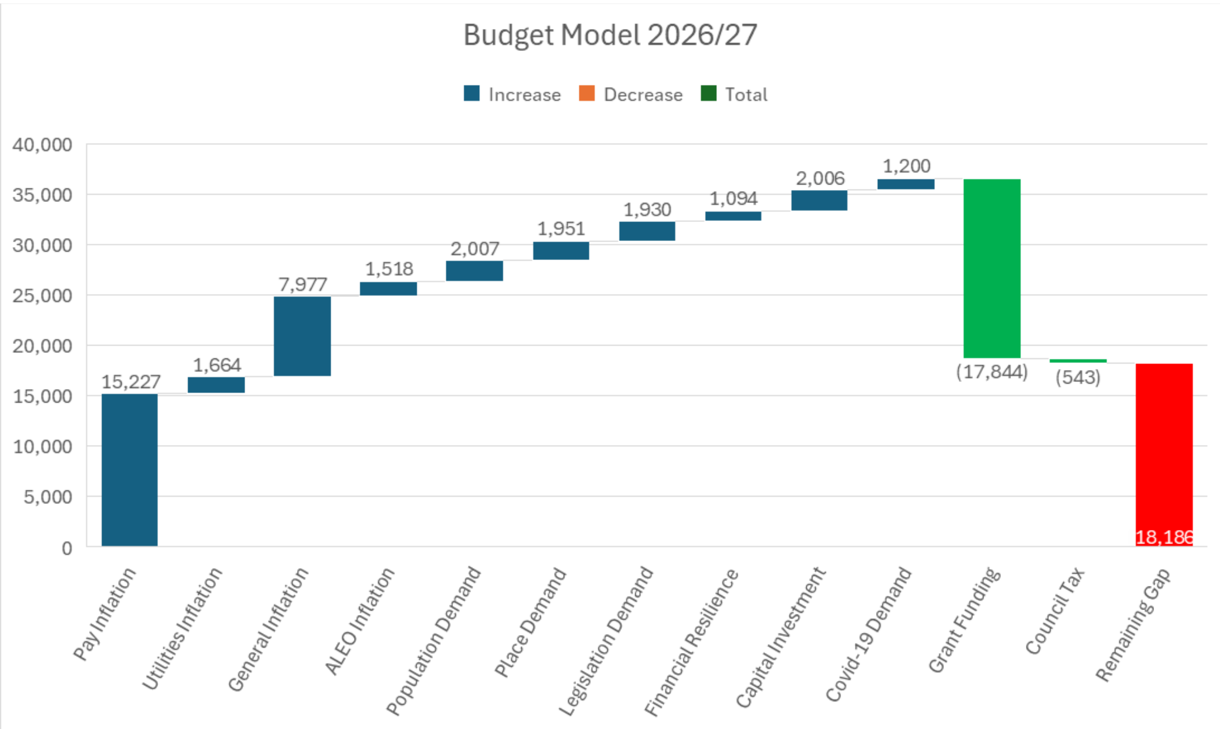
3.1.3 Figures for the Council's Functional structure are presented in the following table, reflecting the changing costs for the Central Scenario.

Table 6: Central Scenario Forecast from 2025/26 to 2030/31 (Gross)

General Fund	**Forecast 2025/26**	**Forecast 2026/27**	**Forecast 2027/28**	**Forecast 2028/29**	**Forecast 2029/30**	**Forecast 2030/31**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
City Regeneration & Environment	35,062	40,847	46,693	48,968	51,309	53,718
Corporate Services	46,994	49,608	48,732	50,083	52,481	54,927
Familiies & Communities	346,333	379,166	387,455	395,318	400,962	404,654
Integrated Joint Board	140,461	136,261	136,261	136,261	136,261	136,261
Corporate	95,300	96,539	106,959	115,874	120,397	122,617
Net Expenditure	**664,151**	**702,421**	**726,101**	**746,504**	**761,410**	**772,178**
Funded By						
General Revenue Grant	(306,025)	(321,866)	(325,332)	(325,332)	(325,332)	(325,332)
NNDR	(200,361)	(202,365)	(202,365)	(202,365)	(202,365)	(202,365)
Council Tax	(154,640)	(155,183)	(155,727)	(156,270)	(156,813)	(157,357)
Use of Reserves	(3,124)	(4,821)	(5,252)	(5,423)	(5,419)	(3,651)
Core Funding	**(664,151)**	**(684,235)**	**(688,676)**	**(689,391)**	**(689,930)**	**(688,705)**
Gap (cumulative)	**0**	**18,186**	**37,425**	**57,114**	**71,480**	**83,473**

3.1.4 The forecast position changes in the different elements of the central scenario, can be represented by the graph in Chart 22.

Chart 22: ACC General Fund 2026/27



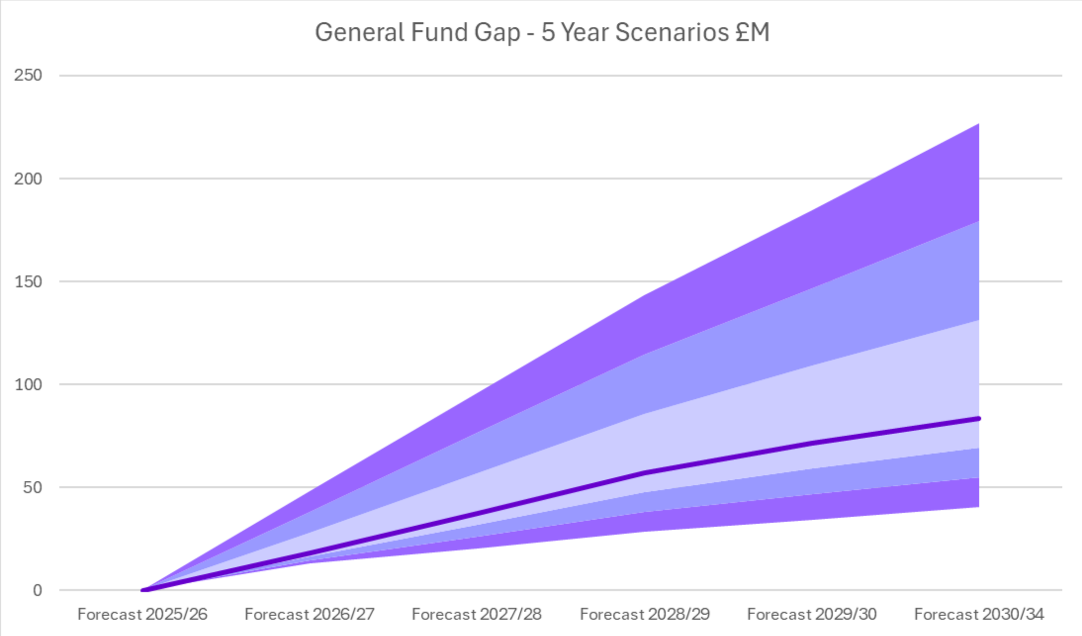
3.1.5 The impact of income and expenditure assumptions over the next five years, with the Upside and Downside scenarios quantified is shown in the table below.

Table 7: Budget Gap Scenarios

After Assumed Savings	Actual 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

3.1.6 More clearly shown in graphical form, below, it shows the range of scenarios that may happen over the course of the years ahead.

Chart 23: Budget Gap Scenarios



3.1.7 The scenario plans reveal a range for 2026/27 of between £13m and £48m, with a central scenario that is not that dissimilar to last year's MTFS. This is not surprising given the range of assumptions that are relatively unchanged since MTFS 2024. The upside scenario is not as favourable as last year largely because the assumption being made for the 2026/27 pay awards is higher than usual, but already partially confirmed.

3.1.8 The additional funding forecast relates to additional Scottish Government funding due for the 2025/26 pay awards, plus an early assumption on funding for Reduction in Class Contact Time (RCCT). Neither of these are subject specific, and are associated with cost base changes elsewhere in the MTFS; these amounts are not additional payments of unrestricted funds for the Council to apply as it sees fit.

3.1.9 There is still no significant improvement in the general funding forecast assumptions. These remain based on a strongly directed spending profile by Scottish Government and flat cash assumptions that are supported by the 2022 Scottish Government Resource Spending Review and reinforced by the 2023 Scottish Government MTFS. The updated Scottish Government MTFS [2025] indicates potential increases in funding may be targeted towards cost pressures across social care.

4. CAPITAL FUNDING AND INVESTMENT

4.1 The Funding Outlook – Scotland, Local Government and Aberdeen City Council

4.1.1 Drawing on the funding outlook for the UK, described in Section 2, the overall expectation for capital funding being made available has the added dimension that capital investment can stimulate the economy and be a lever to support businesses, supply chain and economic growth in times of crisis.

4.1.2 The then Chancellor set out in his 2021 Autumn Budget and Spending Review a budget that is multi-year, as referenced earlier, and this included the capital funding commitments that provides the information the public sector requires to plan for capital investment. The three-year budget figures were linked to the Levelling Up agenda, so that for many areas of the UK there was relevant and specific reference to funding commitments being made.

4.1.3 This included Scotland, where outside the Scottish Block funding announced there was also £170m of capital investment made directly by the UK Government into Scotland, through Scottish Local Authorities. This link between UK Government and Scottish Local Government provides an opportunity to tap into additional funding, not currently available. For the Council this resulted in the award of the full £20m from the Levelling Up Fund, for the Aberdeen Market project.

4.1.4 It was thought this source of funding was of particular importance as the Levelling Up Fund is not a 'once only' Fund, but one that will seek bids in the future. To this end the Council submitted a second bid for funding, in respect of the Beach Masterplan and was unsuccessful in being awarded any funding. Funding for second round bids was directed to local authority areas that had not been successful in round one, and funding for third round bids directed to local authority areas that had not been successful in either of the previous rounds. While the Council remains agile and aware of the opportunities that exist in accessing the valuable funding stream it is perhaps realistic that until Levelling Up has reached all parts of the UK, there will be less likelihood of a further award. Following the General Election in July 2024, it is still not clear if there will be a fourth round for the Levelling Up Fund, as we await details from the new UK Government.

4.1.5 Other Funds have emerged with the UK Shared Prosperity Fund being announced for 2022/23, and now extended into 2025/26. Funding decisions have been made to award locally[62] within the criteria that has been set out. The original allocation to

[62] Finance & Resources Committee, UK Shared Prosperity Fund Report, May 2025

Aberdeen City Council area was £7.2m, with a further £2.3m now released for 2025/26.

4.1.6 The Scottish Government published its Infrastructure Investment Plan for Scotland 2021/22 to 2025/26[63] on 4 February 2021. The Scottish Government described the purpose of this as "Our Infrastructure Investment Plan covers 2021-22 to 2025-26 and delivers our National Infrastructure Mission commitment to boost economic growth by increasing annual investment in infrastructure by 1% of 2017 Scottish GDP by 2025-26."

4.1.7 Investment in infrastructure can provide stimulus and economic growth, evidenced through increases in GDP, therefore having this national picture is important to understand financial commitments, resource allocation decisions and to provide context for local decisions being made. Following the 2021 Scottish Parliamentary elections the Scottish Government published its Programme for Government[64] where capital investment continues to be expanded but noted that prioritisation of health and social care continues to dominate with a commitment, for example, to "Capital investment of £10 billion over the next decade will see health facilities built and refurbished across Scotland."

4.1.8 In May 2022 the Scottish Government published, alongside the Resource Spending Review, a Targeted Review[65] of the Capital Spending Review. This highlighted that three things had changed in the period since February 2021:

- Scotland received a lower than expected capital settlement from the UK Government's Autumn 2021 Spending Review – reducing the funding envelope by over £750 million;
- the establishment of the new Scottish Government in 2021 with an increased commitment to tackle global climate and nature emergencies, reinforced by COP 26; and
- Scotland faces the additional impacts of high inflation, supply chain pressures and business disruption due to a combination of the impact of the UK's exit from the European Union, the pandemic and the crisis in Ukraine.

4.1.9 The reliance on the UK Government for capital grant allocations, with limited capital borrowing powers, means the Scottish Government has concluded that it is not possible to immediately fund all the commitments from the existing spending review and those set out in the Programme for Government.

[63] Scottish Government, Infrastructure Investment Plan 21/22-25/26, February 2021

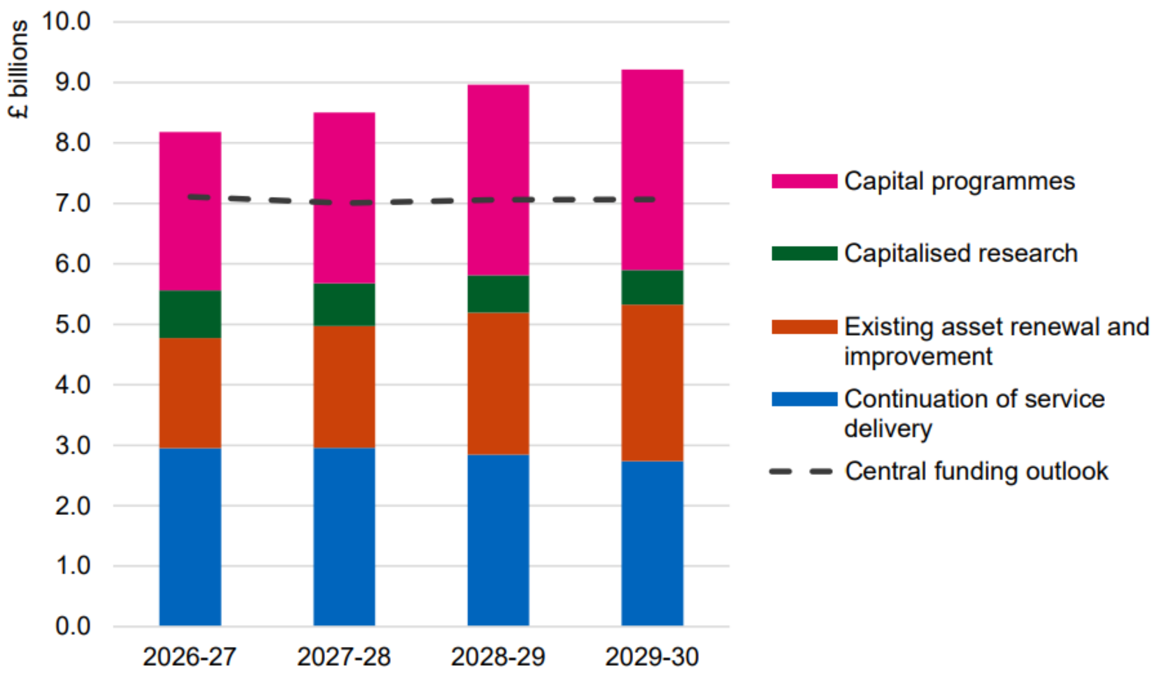
[64] Scottish Government, Programme for Government, 7 September 2021

[65] Scottish Government, May 2022, Targeted Review of Capital Spending Review 2023/24-2025/26

4.1.10 The updated Scottish Government MTFS presented an comparison of capital spending to the funding outlook, as illustrated below. This reinforces previous assumptions that there remains a large capital funding shortfall vs the spending outlook.

Figure 8:

Forecast trajectory for capital spending compared to the funding outlook[66]



Source: Scottish Government

4.1.11 It can be determined from this, and limited updates in the latest Programme for Government published in May 2025[67] that there is no more funding for the Council to support increased investment locally and all of the additional cost associated with capital investment will have to be met by partners, or by the Council borrowing more. The alternative is to reprioritise or reprofile the Capital Programme, as has been done several times in the last 2 years. The Quarter 1 2025/26 report to Finance and Resources Committee saw re-profiling changes approved to the General Fund Capital Programme.

4.1.12 The final bullet point is one that has been laboured throughout the earlier pages of this document, and evidence of the capital effect was clear throughout 2023/24 as contracts and sites were paused to retender, stop and delay incurring costs that are extremely high. The report on supply chain volatility[68] that was considered by City Growth and Resources Committee remains relevant today. That report presents a highly challenging capital investment environment due to this permanent shift in costs across the supply chain.. The impact of actions taken to control inflation by the Bank of England, by increasing the cost of borrowing, means that there are multiple layers of financial effect. Although those measures must now be seen as successful, due to the lowering of the inflation rate over the last year, prices did not fall back to level

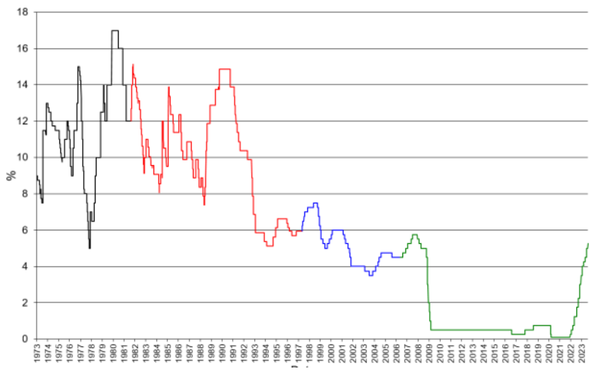
[66] Scottish Government, June 2025, Medium Term Financial Stratgey

[67] Scottish Government, Programme for Government 2025-26

[68] Aberdeen City Council, June 2022, Supply Chain Volatility report

seen prior to the Russion invasion of Ukraine, so the baseline movements in costs still remains. In historic terms the cost of borrowing has now risen to levels not seen in over a decade, raising the cost of future borrowing and countering the sense that we live in a low cost environment that will continue as the norm.

Chart 24: Bank of England base rate/minimum lending rate since 1973



Source: Bank of England

4.1.13 Projects costing more, requiring additional funding to support delivery and borrowing costing more than it did, it adds up to a reason to review the purpose, progress and value of the capital programme.

4.1.14 Paying for the cost of Capital Programmes has become more and more challenging, with increasing levels of external debt and a requirement to meet those commitments, as well as recent increases in borrowing costs. The level of Capital Financing Requirement (CFR) that the Council General Fund had at 31 March 2025 was £1.326billion[69], this includes the Council long-term borrowing and for the assets financed through PPP and Finance Lease arrangements. The cost of servicing all this borrowing is funded by the Revenue Budget annually, therefore increasing borrowing adds cost to the General Fund budget.

4.1.15 The Capital Programme approved by the Council in March 2025 was accompanied by future CFR projections (as part of the required Prudential Indicators), and these are shown in the following table.

	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

4.1.16 Following a recommendation by the Chief Officer – Finance to agree a cap of 10.5% on the annual cost of capital financing as a percentage of the General Fund Net Expenditure the Council agreed at the budget meeting in March 2024 to a 12% cap. This was noted and unchanged by the approved 2025/26 budget. The rising CFR

[69] Aberdeen City Council, Audited Annual Accounts 2024/25

shown above will challenge that cap, as can be seen from the forecasts included as part of the March 2025 Prudential Indicators, shown in the table below:

	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%

4.1.17 As the funding to support capital expenditure is not in place the Council must maintain a robust approach to consideration and scrutiny of business cases, and will be increasingly important. Care must also be taken when external funding is offered or available and a full assessment of the circumstances should be applied as part of the business case approach taken.

4.1.18 The eyes of the world were on Scotland when COP26[70] took place in Glasgow in 2021. Clear commentary from both UK and Scottish Governments demonstrates both funding being available, and investment required within the "Green Economy". The Scottish Governments Infrastructure Investment Plan has as its first Theme: Enabling the transition to net zero emissions and environmental sustainability. It describes why this is important "Public infrastructure investment has a critical role to play in tackling the twin crises of climate change and biodiversity loss. We will increase spending on low carbon measures, climate resilience, and nature-based solutions." The targeted review maintains that emphasis, with Climate change being included as an enduring priority.

4.1.19 One of the Verity House Agreement shared priorities is **transform our economy through a just transition to deliver net zero**, recognising climate change as one of the biggest threats to communities across Scotland. It is clear this remains uppermost in the minds Scottish and Local Government and action has to be taken. The overriding concern for the MTFS is the funding of this transition, as there are no clear routes for this and we should expect this to be iterative over a period of many years rather than something that will be funded now.

4.1.20 On 22 February 2023[71], the Council agreed to "Join local authorities across the world which have responded to the twin crises of climate change and nature loss and declare a "Climate and Nature Emergency"; acknowledging the urgency of the crises, their cascading impacts and commit to address these emergencies."

4.1.21 The commitment extends to a number of specific points:

- Commit to tackling the climate and nature emergencies together; recognising the many and various societal, economic and environmental co-benefits that can be achieved from taking action on climate change and nature recovery; including for skills, products, services, placemaking, health and wellbeing.

[70] COP26

[71] Aberdeen City Council, February 2023, Notice of Motion by Cllr Yuill

- Reaffirm its commitment to take effective action through the current and successive Council Climate Change Plans to limit the impact from Council assets and operations and meet the Council's net zero targets, climate resilience and nature recovery priorities.
- Commit to continuing proactive work with other public, private, third and community sector partners towards Aberdeen becoming a net zero city by 2037 and to build climate resilience and nature recovery, delivering the Net Zero Aberdeen Routemap, enabling strategies; and Aberdeen Adapts, Climate Adaptation Framework[72].
- Plan, develop and manage a Just Transition response to the climate and nature emergencies to ensure fair and positive societal change, tackling inequality and injustice.
- Consider and address the impact, challenges and opportunities of climate and nature in all Council decisions, policies, strategies, plans and projects.

4.1.22 With Council ambition contained in the Net Zero Vision, the Council must seek to harness this over the medium term and is well placed to capitalise on its position within the energy market. In February 2022 the Council approved[73] the city-wide approach to addressing climate change, as articulated through a *Net Zero Routemap* which sets a net zero target for Aberdeen City by 2045 across six themes and the refreshed *Aberdeen Adapts*, providing a climate adaptation framework for Aberdeen.

4.1.23 Clear alignment within the Local Development Plan (LDP) and the future investment within the city (both by the public and private sector) are critical to providing land availability to allow future investment to take place.

4.1.24 The LDP clearly has ear-marked land for the Energy Transition zone and outline business cases are already in development to bring this aspect of the planning regime to life.

4.1.25 This is coupled with the already approved Strategic Investment Plan[74] approved by the Council and begins to articulate the future investment required to ensure the city is at the forefront of future energy sources as well as moving towards a net zero carbon footprint.

4.1.26 Investment in electric and hydrogen vehicles, sustainable energy sources for heating as well as Low Emission Zones will all be key to delivering a successful city of the future. All these investment strands are being brought forward at a pace to help deliver against this climate change backdrop. The Capital Programme continues to support several initiatives, including investment in electric and hydrogen vehicles, charging infrastructure and the hydrogen hub (a joint venture with bp).

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[72] Net Zet Aberdeen and Aberdeen Adapts: Annual Report 2024/25

[73] Council, 28 February 2022, Climate Change: Citywide strategy and COUNCIL Carbon budget

[74] Net Zero Vision and Infrastructure Plan, UBC May 2020

4.1.27 However, a city must be able to offer a much more diverse offering to attract the investment to make it a city of choice in terms of where to live and work. While pre-Covid-19 urbanisation was seen as the future in a post Covid-19 world this becomes blurred as human behaviour may well have changed forever.

4.1.28 As individuals and businesses seek to find a new "norm" the pressure on cities to redefine themselves will become ever more important. As people potentially work from home, children are educated out with a traditional school setting, on-line shopping becomes even more prevalent and other health issues begin to manifest themselves traditional capital investment by a local authority needs to be paused and re-examined.

4.1.29 Where people live and the type of housing they live in will no doubt change in the future. For example, people working from home and children being educated in a blended way means the Council will have to adapt.

4.1.30 The current house building programme approved by the Council in February 2020, presciently, set a new "Gold Standard" which would ensure space in a residential setting would provide for:

- Space to work from home;
- Energy Efficiency and tackling fuel poverty;
- Dedicated space for children to learn at home;
- Dedicated "Green Space"; and
- Encouraging fit and healthy lifestyle (cycling and walking).

4.1.31 In support of the vision, the Net Zero Vision prospectus recommends five co-dependent strategic objectives that will support the economic imperative to transition to a different energy future beyond oil and gas anchoring talent and the energy supply chain; innovation and technology transfer; a new energy destination of choice; and leading and advocating for the city and energy sector:

i. Leading the Global Transition - Our city is a world-class destination for inward investment in alternative energy research, innovation, and commercialisation, underpinned by our credentials and track record;

ii. Accelerating Transition Demand - Our city and its institutions are an anchor of demand and aligned local investment for alternative energy technologies, infrastructure and services, particularly those relating to hydrogen, offshore wind, carbon capture, utilisation and storage, and decommissioning;

iii. Resilient, Productive and Dynamic Place - Our city is recognised the world over as the resilient, productive and dynamic place at the heart of a world-class energy transition cluster;

iv. Climate Positive Exemplar - We play our full part – as a climate positive advocate and exemplar – in meeting the headline global goal of the Paris

Agreement on Climate Change by limiting average global warming to no more than 1.5oC above pre-industrial levels;

v. Putting People First - Everyone contributes to and shares in the proceeds of an equitable, sustainable and prosperous transition and future.

4.1.32 The plan aligns to the overall objective of Aberdeen meeting the net carbon zero target by 2045 and, ultimately, to achieve climate positive status, and the goals of:

- Clean energy supply for the city, UK and internationally
- Aberdeen's infrastructure is adaptable to changes in climate
- Sustainable mobility
- Building Energy Efficiency
- Sustainable Waste Management

4.1.33 Building on all of this, capital investment decisions on the future infrastructure requirements of the city will have to align to these principles.

4.1.34 The Capital Programme for the General Fund was approved in March 2025 with investment in city projects over the five years to 2029/30. Following the end of 2024/25, as reported in the Council Financial Performance - Quarter 1, 2025/26 – CORS/25/181 report to Finance and Resources committee at the beginning of August 2025, budget carry forwards and re-profiling exercises have been carried out, and the programme has also now been updated with various additional capital grants which have been confirmed in the first 6 months of 2025/26. Details of the updated 5 year programme of £759 million are shown in Appendix 2.

4.1.35 The General Fund Capital Programme includes significant future investment in education and school estate, while supporting the modernisation of technology infrastructure over the five years. Funding for transport and for the City Centre and Beach Masterplans remains a core part of the approved programme, shifting the emphasis on transport towards alternatives to the car, prioritising public transport and infrastructure for electric and hydrogen technologies, as the same time supporting the transformation of the City Centre and the Beach areas. As referred to above, the programme is again being reviewed in light of economic conditions and capacity and supply chain challenges.

4.1.36 Shaping the future, taking account of the ambition described above will be managed within the framework of the Prudential Code for Capital Finance in Local Authorities, which requires this to be prudent, affordable and sustainable. With the financial challenge so significant in revenue terms, a choice will be to decide on the level of capital investment that is affordable and sustainable. Options would be to stop potential investment projects, reduce the scope or quantity of investment provided, and delay and extend the period of investment. These options would have an impact on both the financing costs of the projects but also the revenue implications of new facilities and assets being created and becoming operational.

4.1.37 The financial environment across the Scottish public sector is challenging, with the Scottish Fiscal Commission forecasting that if public services in Scotland continue to be delivered as they are today, government spending over the next 50 years will exceed the estimated funding available by an average of 1.7% each year[75]. All local authorities will be affected by such pressures. Aberdeen's successful economy and well-run governance provide some resilience. However, the ageing population is putting additional demands on services, particularly in healthcare and adult social care. With more over 65s than under 16s in Scotland, local government budgets are increasingly strained as they prioritise funding for these essential services.

[75] Scottish Fiscal Commission, March 2023

5. RESPONSE TO THE CONSOLIDATED MEDIUM-TERM OUTLOOK FOR THE GENERAL FUND

5.1 2025/26

5.1.1 The Council's allocation of resources and budget is set annually within the context of a commissioning cycle which aligns available resources to a broad range of commitments which are described through:

- Statutory duties;
- Implementation of the Council's Partnership Agreement;
- Commissioning intentions which support the delivery of the Local Outcome Improvement Plan and other strategic outcomes; and
- Service standards which specify the level of service to be delivered.

5.1.2 It is essential that the Council balances its budget in-year and does not add unplanned expenditure into the financial modelling and MTFS. The monitoring of the current year is being carried out in line with the Council's quarterly financial reporting Based on the Quarter 1 Financial Performance Report[76] the Committee noted that "…the General Fund full year forecast position remains on track to achieve a full year outturn of 'on budget' although there are a range of financial risks that exist for the financial year. Continuing action and controls…..will remain in place for the remainder of the financial year.

5.1.3 Following a period of intense negotiation with trade unions, the Council agreed an implementation plan for the reduction to a 35 Hour Working Week, and staff transitioned to the new arrangements from 1 July 2025. The reduction to the on-going baseline payroll cost for the Council's General Fund is £7m and included in the MTFS modelling for 2025/26 and beyond. Further details will be included in the Quarter 2 Financial Performance Report.

5.1.4 Sustaining the balanced position described in the Quarter 1 report assumes that pay negotiations do not create additional cost to the Council and that any additional monies required to reach an agreement are fully funded by the Scottish Government. A two year pay deal for non-teaching staff was agreed just prior to the Finance and Resources committee, and implemented for the August payroll. This is the first time for several years that a pay award has been agreed in advance of the financial year, which gives more comfort on the certainty of future financial modelling. The Scottish

[76] Finance and Resources Committee, August 2025, Council Financial Performance Quarter 1 2025/26 – CORS/25/181

Government has provided additional funding to partially support all the pay negotiations agreed to date.

5.1.5 Negotiations are continuing with the Teachers bargaining group. Teaching staff constitute roughly a third of the Council's payroll costs, so a level of uncertainty on future payroll costs still remains.

5.2 *2026/27 and beyond*

5.2.1 Resource allocation for future years will be derived from the council's commissioning cycle. Specifically, the services which the Council delivers will be reviewed annually with analysis of the operating environment through:

- Horizon scanning
- Scenario planning
- Strategy review
- An analysis of statutory duties
- An analysis of current and projected demand
- Performance levels achieved
- An analysis of financial data
- An analysis of contracts
- An analysis of workforce data

5.2.2 Delivering a balanced budget across the Medium Term Financial Strategy must be tackled thought a range of different approaches, using all of the opportunities that the Council has at its disposal where and when they are available. The tools that Aberdeen City has and has put in place to do this include:

- The Target Operating Model (TOM 1.2) and transformation of the Council
- Multi-Agency Transformation
- Efficiency Savings
- Changing Service Standards
- Exercising discretion to increase income
- Reserves and Fiscal Flexibilities

5.3 *Future Transformation Priorities*

5.3.1 From 2017 Phase 1 of the Councils transformation shifted the organisation to a new way through the Target Operating Model (TOM). With the implementation of the TOM and delivery of the digital strategy, along with the delivery of required savings and a balanced budget over the five years (2018/19 to 2022/23), the Council refreshed our transformation journey and the next phase of our Target Operating Model – TOM 1.2[77] was agreed in August 2023.

5.3.2 While transformation is not only about delivering the necessary savings; there is an even more crucial need for organisational culture to be strategically oriented towards the towards the capabilities envisaged by the Council's Operating Model, for example, preventing customer demand, anticipating demand, supporting customers to manage their demand, and in the event, responding to the demand ensuring that staff are working with a focus on outcomes. A very deliberate attempt has been made, and will continue to be made, towards influencing the culture of the organisation as well as ensuring that all staff have the right skills and working environment practices to operate within a changing environment.

5.3.3 TOM 1.2 focuses on further embedding the design principles and capabilities, supporting deeper and broader service redesign, with digital as an enabler. Crucially it will enable the organisation to deliver savings required for the next 5 years from 2026/27 to 2030/31 as set out in this Medium-Term Financial Strategy (MTFS).

5.3.4 The objectives of TOM 1.2 are:

1. Support the Council to address the 5-year funding gap of £134m as outlined in the MTFS 2022. (Now revised as per 3.1.5 above)
2. Continue to exploit digital technologies within the Council's Digital Transformation agenda to enable services to adopt technology for various activities and processes, thus enabling the Council to fully leverage technologies to accelerate their processes.
3. Develop an organisational workforce that is flexible ensuring all staff have the necessary skills to work effectively within the Council's operating model.

5.3.5 In addition to the Council's own transformation programmes, we have established a Multi-agency Transformation Management Group and have worked collaboratively with partner agencies on transformational activity relating to digital services; use of assets; early intervention and prevention through the management of demand; and the design of specific services, with a particular focus on children' services.

5.3.6 Looking forward and within the context described by this medium-term financial strategy, the Transformation Programme has been reviewed and refocused on the capabilities and actions to support deeper and broader service redesign which will be required to ensure financial stability in future years. The priorities for the next phase of the Transformation Portfolio will build upon our systemic redesign of services to

[77] Council, 24 August 2022, Council Target Operation Model (TOM) 1.2

ensure we respond to and shape future demand. Specifically, this transformation activity will focus on:

- Taking full advantage of the opportunities which are presented through the rapid acceleration of digital technology, the availability and management of data and how this can support both planning and transactional services for our customers. The council has, and will continue to, invest in new IT systems and technologies, to increase productivity and efficiency through end-to-end processes, customer journey and improvements in information and technology;
- The flexibility of our workforce and the ability to respond to different demands and a different environment. We will continue to invest in the culture, training and development that will deliver a diverse and inclusive workforce for the future;
- The use of our physical assets to support transformation of our services and deliver an increased return for the Council. The council holds significant physical resources such and through the implementation of an updated Asset Strategy we will continue to work to optimise the use of our assets. We will improve the use of data to ensure we fully understand the nature and value of our assets to support informed decision making; and
- Working closely with our partners, customers and communities to deliver inclusive, whole system redesign. Building on our work to identify and reduce negative demand, much of the demand which local authorities experience can only be effectively reduced through early intervention and prevention activity delivered jointly with our partners including, where appropriate "co-production" of local services with communities. Our partnership work will be driven through both Community Planning Aberdeen and the North East Multi-Agency Transformation Management Group.

5.3.7 In recognition of this approach the initial activity that has been done on our programme of work has resulted in a range of workstreams. While the detailed discovery, planning and analysis is carried out, working towards decisions being taken, a judgement of the value that the Council should be aiming to achieve has been forecast. This covers the transformation workstreams of the Council and also the Multi-Agency transformation that is being worked on.

5.3.8 The value that the Council places against those transformation programmes is included in the table below, which estimates the timescale for when those savings and income streams may be delivered. As the detail is worked through and decisions are taken on specific actions these values will be firmed up and locked in.

Table 8: Proposed Savings / Income Generated from Transformation Programmes

Assumed Savings/Income Generated through Transformation Programmes of Work	**2024/25 Indicative budget saving £'000**	**2025/26 Indicative budget saving £'000**	**2026/27 Indicative budget saving £'000**	**2027/28 Indicative budget saving £'000**	**Total 4 Years Indicative budget saving £'000**
Transformation of the Council	(7,611)	1,367	(2,699)	(12,744)	(21,687)
Multi-Agency Transformation	(500)	(1,025)	(1,285)	(1,200)	(4,010)
Total	**(8,111)**	**342**	**(3,984)**	**(13,944)**	**(25,697)**

5.3.9 This is not the total extent of what the Council expects to achieve from transformation. Opportunities to close the funding gap will arise that will impact directly on service levels and standards and may affect our commissioning intentions. These have not been baked into the MTFS 2025 and will instead continue to be developed into specific budget options for 2026/27 and beyond.

5.4 *Linked Strategies*

5.4.1 The Strategic Commissioning Committee agreed in November 2019 a revised Strategy Framework[78] which reframed the formal strategies of the Council to ensure their full alignment to the Local Outcome Improvement Plan and their consistency with each other. Through the adoption of the commissioning cycle, the council's strategies have a fundamental role in the strategic allocation of resources. This Strategy is a key plan which provides context and sets principles which must be reflected within the council's strategies. The council's updated strategy frameworks are shown at Appendix 3.

5.5 *Efficiencies*

5.5.1 These have been a necessity of local government financial settlements, that the sector does more with less year on year, and this has been essential given the real terms cut in funding that local government has received over the last decade, referenced earlier in the document.

5.5.2 Experience shows that managers year on year are able to deliver savings as part of business as usual, based on decisions to not purchase the same volumes of goods and services, to change the product or commodity that is purchased, to negotiate and tender for better prices, to identify if work can be done in a different way that improves productivity or removes inefficiency of historic work or procedural processes.

5.5.3 These do not have to be described as transformation or be a fundamental redesign, these can be achieved through behaviour, through capability and through access to

[78] Strategy Framework, SCC, November 2019

advice and guidance on options. All this points in the direction of the principles of the TOM but results in savings that can be captured because the Council does thing more cost effectively.

5.5.4 Part of the solution to the MTFS budget gap is to year on year secure savings from business as usual, to capture a significant efficiency improvement that results in a lower cost base for the in-year and future service delivery. These efficiency savings are getting more and more difficult to identify. In the event that the change in behaviour required to deliver the saving falls within existing delegated powers to officers, current practice is to simply update the MTFS directly, rather than include it in the list of proposals being submitted to Council for consideration. The assumption that has been made by the Council is that it should expect savings from achieving efficiencies going forward, these are still being quantified for 2026/27 and beyond. These are summarised in the table below:

Table 9: Proposed Savings / Income Generated from Efficiencies

Assumed Savings/Income Generated through Efficiencies	**2024/25 Indicative budget saving £'000**	**2025/26 Indicative budget saving £'000**	**2026/27 Indicative budget saving £'000**	**2027/28 Indicative budget saving £'000**	**Total 4 Years Indicative budget saving £'000**
Efficiencies	(335)	(1,412)	0	0	(1,747)
Total	**(335)**	**(1,412)**	**0**	**0**	**(1,747)**

5.6 *Raising Income*

5.6.1 As described earlier the most significant fiscal lever at present is the Council Tax and the ability now for Councils to adjust this unconditionally means that it is an important tool to address rising costs on a recurring basis so that financial sustainability is also address, in part at least.

5.6.2 A key principle of the MTFS is to exercise the discretion it has over local taxation and increase the Band D charge for Council Tax annually to support future budgets. In the current climate the strategic position to take is to plan for real terms increase in the rate that Council Tax is charged so that the value keeps up with the rising costs that have to be funded. To address a significant budget gap in the future this provides an excellent means of doing so.

5.6.3 Other fees and charges, both internal and external, are valuable sources of funding. The description earlier in the document forecasts the change in the underlying value of the customer base and use of services that are charged, the MTFS does not present the options or assume the value of additional income that can be generated as this is subject to the discretion of the Council. The principle is clear, that the Council must apply its Service Income Policy to support the effective and sustainable delivery of services where charges can be applied and exercise that discretion annually and collect the income that is rightfully owed.

5.6.4 Further insight into the core income streams that the Council relies upon is included in the Financial Resilience Framework, described in Section 6.

5.6.5 Overall financial sustainability is improved where there is income being received to cover costs and that the income is recurring. With the ability to exercise discretion over only on a number of the lower value funding streams from fees and charges (i.e. excluding Council Tax) the Council should do what it can to secure additional revenue annually in support of the budgets.

5.7 Reserves and Fiscal Flexibility

5.7.1 The opportunity to use reserves, while a legitimate funding source, it must always been seen and dealt with as one-off in nature. The Council position on Reserves is included in Section 6.

5.7.2 The emergence of fiscal flexibilities over the last two years, brought on or progressed at pace because of the impact of the pandemic, has provided local government with opportunity to take one-off savings or income streams to assist in managing the financial position. The Council has taken advantage of these in recent years, using capital receipts to support the voluntary severance and early retirement of staff rather than charge that to revenue budgets; in 2022/23 the Council deferred the repayment of debt principal (or more accurately, it did not have to account for the repayment, thereby meeting legal obligations to repay debt as it falls due while achieving a saving); and finally in 2023/24 the Budget[79] meeting of Council agreed to exercise the final flexibility, the Service Concession.

5.7.3 As stated earlier these are legitimate and appropriate sources of income or achieving savings provided they are treated properly and responsibly. This includes consideration of the benefits that are achieved from a one-off source of funding – it is recommended that a return is received in the form of financial (and non-financial) benefits from what can be classified as investment, spend to save being a well-used term to describe it. Transformation for example will require a level of investment to make the change take effect and an example where the Council has undertaken this has been using a Transformation Fund, where money is committed and drawn down to support technology or skills investment that once purchased delivers a saving or new income stream. In respect of the Service Concession Flexibility, the reserve that was created has funded capital expenditure in the Capital Programme and the remainder is committed to funding the reduction of the workforce, through the

[79] Aberdeen City Council, March 2023, General Fund Revenue & Capital Programme 23/24-27/28 RES/23/085

Voluntary Severance / Early Retirement Scheme which requires upfront funding for longer term financial benefit.

5.7.4 No other fiscal flexibilities are available for the Council to implement.

5.7.5 It should be noted that the Chief Officer – Finance has recommended use of reserves, specifically the Capital Fund, as a means of funding the Council's proposed acquisition of the RAAC (Reinforced Autoclaved Aerated Concrete) affected private properties in Torry. A recommendation has also been made that the Capital Fund could also be utilised to support of implementation of the 35 Hour Working Week, if required, to meet the total cost of the two Buy Out payments to staff.

5.8 Conclusion

5.8.1 The challenge set out in the MTFS is increasingly significant and increasingly uncertain with the gap in the scenarios growing. The Council will have difficult decisions to make to balance the budget gap over the 5 years, particularly in light of the economic environment, the ongoing and extreme market conditions in which we operate and a reinforcement, through the SG MTFS, that the Scottish Government are not going to, or cannot afford to, provide additional funding to meet the rising cost of services over the medium term.

5.8.2 The solutions come from a mixture of actions. The work that was started several years ago through the original Target Operating Model is now assessing the stages of a new five-year period with the ambition to contribute towards the 2022 budget gap, referencing the central scenario outlined in this. The Council needs the Transformation programmes outlined in TOM 1.2 to deliver the savings required in the timeframe and is determined that these programmes of work deliver cashable benefits as outlined above.

5.8.3 Multi-agency work, through our engagement and working together with partner organisations also provide the opportunities to use resources more effectively across organisations, savings must be delivered from these programmes of work too.

5.8.4 Efficiencies will play an enduring part of managing the budget position and to drive out where efforts can be taken to be more cost effective, productive and efficient in what the Council does, this is across the Council not just a select few.

5.8.5 On a regular and consistent basis the use of the discretion that the Council has to increase income to support the cost base it has should be taken, whether fees and charges, new discretionary powers or Council Tax. Securing income is a fundamental part of making the Council sustainable over the medium to long term.

5.8.6 Finally there is the option to consider how one-off funding streams (that may be available) are applied to the financial position, and care will need to ensure that these finite resources are used to the medium and long term benefit of the Council's financial position, preference being for receiving a clear financial return from investment of one-off funding.

5.8.7 Through a combination of all these mechanisms the Council aims to find the solutions that balance the financial challenges over the next five years.

5.8.8 The current position for the Central Scenario, as shown in section 3.1.3 provides a budget gap as shown in the following table:

Table 10: Central Scenario Forecast from 2025/26 to 2030/31 (Net)

General Fund	**Forecast 2025/26**	**Forecast 2026/27**	**Forecast 2027/28**	**Forecast 2028/29**	**Forecast 2029/30**	**Forecast 2030/31**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
City Regeneration & Environment	35,062	40,847	46,693	48,968	51,309	53,718
Corporate Services	46,994	49,608	48,732	50,083	52,481	54,927
Familiies & Communities	346,333	379,166	387,455	395,318	400,962	404,654
Integrated Joint Board	140,461	136,261	136,261	136,261	136,261	136,261
Corporate	95,300	96,539	106,959	115,874	120,397	122,617
Net Expenditure	**664,151**	**702,421**	**726,101**	**746,504**	**761,410**	**772,178**
Funded By						
General Revenue Grant	(306,025)	(321,866)	(325,332)	(325,332)	(325,332)	(325,332)
NNDR	(200,361)	(202,365)	(202,365)	(202,365)	(202,365)	(202,365)
Council Tax	(154,640)	(155,183)	(155,727)	(156,270)	(156,813)	(157,357)
Use of Reserves	(3,124)	(4,821)	(5,252)	(5,423)	(5,419)	(3,651)
Core Funding	**(664,151)**	**(684,235)**	**(688,676)**	**(689,391)**	**(689,930)**	**(688,705)**
Net Position (MTFS Central Scenario)	**0**	**18,186**	**37,425**	**57,114**	**71,480**	**83,473**

5.8.9 The Upside and Downside Scenarios are summarised as follows:

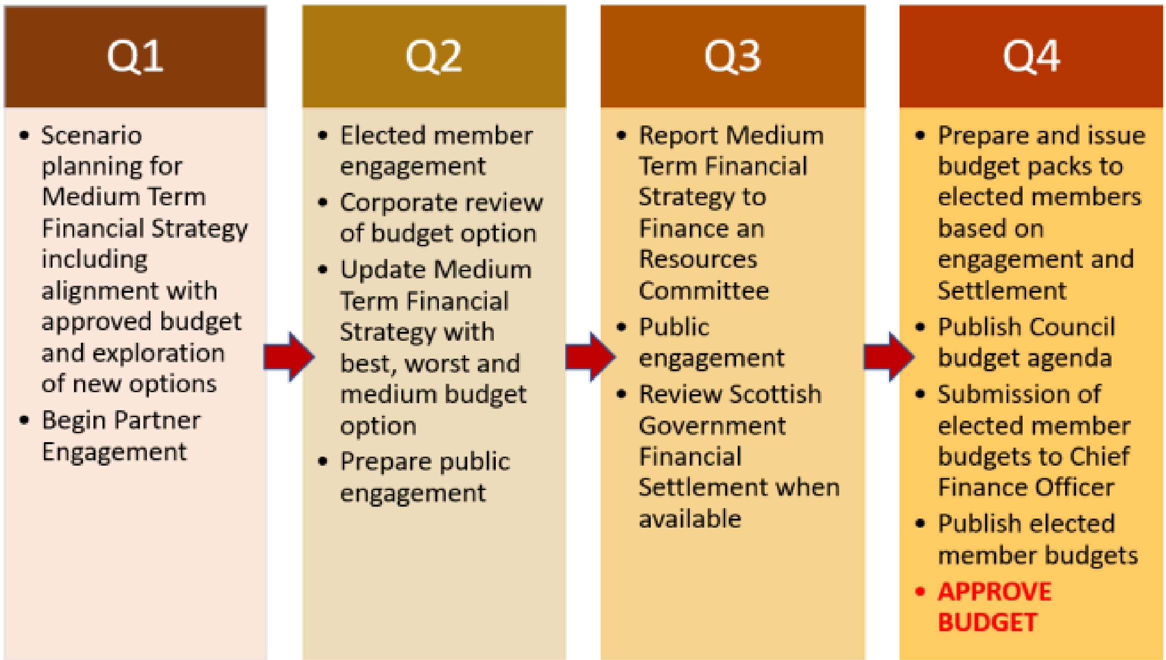
Table 11: Revised MTFS Budget Gap Scenarios

After Assumed Savings	**Actual 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

5.8.10 Given the low likelihood of the Council facing the Upside scenario given all that is described in this report, the Central Scenario remains the focus of attention. However recent announcements and the level of financial uncertainty, the changing nature of the financial and economic conditions mean that the Council must be aware of and able to respond to a shift towards the Downside scenario.

5.90 *Consultation & Engagement*

5.9.1 The Central Scenario will be subject to consultation and engagement in line with the Budget Protocol, approved as part of the Council's refreshed Scheme of Governance in April 2025[80].



5.9.3 The Central Scenario, shown above at 5.8.9 will be the primary focus for this consultation, however given the level of uncertainty involved in the MTFS forecasts, the consultation will look at budget options that have been prepared to support "closing the gap" for both the Upside and Downside scenarios e.g. differing levels of grant funding, or income raised from Council Tax.

[80] Aberdeen City Council - Scheme of Governance Review - 2025 - CORS/25/070

6. RESERVES AND FINANCIAL RESILIENCE FRAMEWORK

Useable Reserves

6.1 Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Chief Officer - Finance is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

6.2 The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and demonstrates sound financial planning. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Council time to ride any short-term situations before returning to normal.

6.3 Therefore, reserves are mainly available to;

- ✓ Manage the impact of cuts over a longer period;
- ✓ Invest in schemes that allow services to be delivered cheaper;
- ✓ Take “one-off hits” for the council as a whole without the need to further reduce service budgets;
- ✓ Provide capacity to absorb any non-achievement of planned budget reductions in each year;
- ✓ To temporarily roll over unused portions of grants that can legally be used at a later date;
- ✓ To insure against major unexpected events (such as flooding);
- ✓ To guard against general risk (such as changes in contingent liabilities);
- ✓ To guard against emergent specific risks (such as Covid-19).

6.4 The likelihood of these risks arising is predicted to continue to increase.

Reserves Statement[81]

6.5 The council’s policy on reserves is outlined within the MTFS principles as follows:

- The council will maintain its general reserve at a minimum of £12m to cover any major unforeseen expenditure. The council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the unearmarked General Fund Reserve.
- The council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed annually.

[81] Council Reserves Statement, March 2025, Report Number 2, Appendix 6

- The council's general reserve is available to support budget setting over the period of the MTFS and usage should be linked to the achievement of financial sustainability over the medium term.

Review of Reserves

6.6 A review of reserves is undertaken twice a year and covers:

- The purpose for which the reserve is held,
- An assessment of the appropriate level of the reserve to meet potential future liabilities, in line with the Council's reserves policy and aligned to the risk management framework,
- Procedures for the reserve's management and control,
- A process and timescale for future reviews to ensure continuing relevance and adequacy.

6.7 The Audited Annual Accounts for 2023/24[82] show the balance of General Fund usable reserves of £93m (including earmarked reserves of £81m).

6.8 An explanation of each earmarked reserve and values as at 31 March 2025 can be found in the council's audited annual accounts for 2024/25.

6.9 For financial resilience the council should consider use, replenishment and increase of the unearmarked General Fund Reserve over the MTFS period.

6.10 The overall level of financial resources available to the council is finite and therefore any continued use of reserves cannot be sustained in the longer term without placing the council's financial position at risk. The MTFS recognises that the council's financial reserves are maintained at a prudent level to protect present and future council services.

6.12 The council accepts that while balancing the annual budget by drawing on general reserves can be in certain circumstances a legitimate short-term option it is not considered good financial management to finance recurrent expenditure in this way. Where this approach is adopted, the council will be explicit as to how such expenditure will be funded in the medium to long term to achieve financial sustainability. The council recognises that usage of reserves is one-off in nature and must be linked with expenditure and income plans to support financial sustainability in the medium term.

Financial Resilience Framework

6.13. **Introduction**

[82] Urgent Business Committee, Audited Annual Accounts 2024/25, CORS/25/169

6.14 For Local Authorities generally, the measure of financial resilience has been to rely on in-year contingencies and its Reserves Policy.

6.15 The Council acknowledged, in the reports to the Urgent Business Committee and City Growth and Resources Committee in 2020, that financial resilience was a crucial aspect of financial management that became more important in times of crises, such as a global pandemic.

6.16 It was recognised that financial resilience was more than about its reserves and there was a need to be more comprehensive in the assessment of the measures of resilience. In the Medium Term Financial Strategy 2020, approved on 28 October 2020 it was agreed that the Council's approach to financial resilience was to be developed further.

6.17 While the Covid-19 pandemic brought a specific focus to the subject, it was not the sole reason for further work. The ongoing national debate on the financial sustainability of the local government sector in Scotland, the increasing number of local authorities in England in recent years that have found themselves in financial difficulty, resulting in Chief Financial Officers having to prepare formal s114 notices.[83]

6.18 There has been greater emphasis from external auditors on the assurance and demonstration of the concept of 'going concern' for local authorities and this being a key area of audit activity now.

6.19 All of this adds up to the need for greater attention to be paid to the financial resilience of the Council and to consider what financial resilience is, how it is defined and measured and what it leads us to do.

6.20 The development of a financial resilience framework to shape the Council's understanding of key aspects of financial strength is the starting point and to define the areas that are most appropriate to consider. Further work will be done to develop this further, to look at the comparators and where this applies, and to consider in more detail the exposure the Council has from its Group entities.

6.21 The framework is developing in terms of the data that we are collecting, and it will continue to be further developed to support our approach to financial resilience.

6.22 **Background**

6.23 The Council has always reviewed and paid attention to its usable reserves, those that it can draw on in a time of need. To this effect the Council has in place its Reserves Policy, which it reviews annually as part of the budget setting process. This is done in the context of assessing the level of reserves needed to meet estimated future

[83] Section 114 notices are the mechanism through which English local authorities report that they are unlikely to achieve a balanced budget for the financial year.

expenditure when calculating the budget requirement. The Chief Officer - Finance is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

6.24 The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and demonstrates sound financial planning. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Council time to ride any short-term situations before returning to normal.

6.25 Therefore, reserves are mainly available to;

- ✓ Manage the impact of cuts over a longer period;
- ✓ Invest in schemes that allow services to be delivered at lower cost;
- ✓ Take "one-off hits" for the council as a whole without the need to further reduce service budgets;
- ✓ Provide capacity to absorb any non-achievement of planned budget reductions in each year;
- ✓ To temporarily roll over unused portions of grants that can legally be used at a later date;
- ✓ To insure against major unexpected events (such as flooding);
- ✓ To guard against general risk (such as changes in contingent liabilities);
- ✓ To guard against emergent specific risks (such as a pandemic or financial crisis).

6.26 The Council looks at financial resilience as a much wider subject as it is about our ability to anticipate, prepare for and respond to the changing financial environment, derived from internal decisions and external factors. To be financial resilient, is to know what would be available in the time of crisis, is to understand the exposure to loss of income, and commitment to expenditure, as well as understanding the flexibility the Council has in terms of accessing funds when they are needed.

6.27 In this strategy financial resilience has been broken into the following four areas:

- Review of the Council's Balance Sheet
- Capital financing; investment, and borrowing
- Build financial resilience and independence
- Identify those that should pay by minimising fraud and avoidance

6.28 Maintaining a strong balance sheet provides the assurance that the Council can respond in the time of crisis, it can meet its obligations and provides confidence in the Council's ability to participate with our full range of stakeholders. They include our external auditors, our bond holders, credit rating agency, contractors and suppliers, and ALEOs. Notably the Local Government Benchmarking Framework (LGBF), in the analysis of 2019/20 it started to incorporate financial sustainability information which is of a similar nature. This provides a Scotland wide comparison of some of the key elements that are included in the Council Framework.

6.29 Supporting our resilience in our balance sheet includes:

- In-year financial performance to manage the budget position, including cashflow;
- An annual review of the balance sheet by our treasury advisors, with a focus on capital financing requirement, liquidity and long-term borrowing;
- Regular review of usable reserves and the appropriateness of sums earmarked; and
- Regular review of provisions held.

6.30 Bringing all of this together to provide the information to the Council in a form that it can take account of in its decision making is an important next step. To inform that, further consideration has been given to the LGBF financial sustainability measures, CIPFA Resilience Index that has been prepared with English Local Authorities, Moody's credit rating assessment reports and careful thought about what is important to the resilience of the Council the areas will be refined to be more specific.

6.31 **<u>Framework</u>**

6.32 The framework has the following components:

- Council reserves and liquidity *(the availability of resources)*;
    - Reserves
    - Net Worth
    - Liquidity
    - In this section further work is anticipated regarding the Council exposure to its Group
- Capital financing; investment, and borrowing *(the creation of resources and gearing)*;
    - Capital Finance Requirement
    - Debt
    - Prudential indicators
    - Investment
- Build financial resilience and independence *(the longevity and trends in resources)*;
    - Top income streams
    - Top expenditure commitments
    - Operational Cashflow understanding
    - Exposure to areas of high demand (e.g. Adult and Children Social Care, Education), with consideration also to be given to the proposals for a National Care Service in Scotland

  - In this section further work is anticipated regarding the Council exposure to its Group
- Identify those that should pay by minimising fraud and avoidance *(the security of resources)*.
  - Counter fraud policy and procedure
  - Counter fraud resource
  - National Fraud Initiative
  - Internal and external audit assurance

6.33 The Council's financial resilience framework now sits within this document and has been populated based on the audited annual accounts up to 31 March 2025.

6.34 The framework uses relevant information to measure the Council finances using the Financial Statements and additional information obtained from the Annual Accounts. This provides the data to calculate a consistent set of relevant ratios that are important to measuring the strength and depth of the Council finances.

6.35 The intention is to go further and understand other aspects of the Council's financial position using trend data to consider the impact of history and where possible to look forward based on Council approved plans and strategies. This remains work in progress with resources required to consider fully.

6.36 The relevance and purpose of ratios needs to be carefully considered as they should all have a purpose. The proposal is to avoid simply listing lots of calculations just because they can be calculated, they will have a defined purpose. Examples of the type of ratio that are likely to be included are:

Ratios/Measures	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	
Availability of Resources						
Usable Reserves / Net Revenue inc. HRA (%)	16.4%	22.0%	25.0%	23.6%	25.1	
Usable Reserves - GF / Net Revenue (%)	14.2%	15.7%	16.4%	16.7%	15.2%	
Usable Reserves - HRA / HRA Revenue (%)	14.3%	14.7%	16.0%	13.5%	9.7%	
Reserves Sustainability Measure	100.0	100.0	100.0	100.0	100.0	
Level of Usable Reserves	16.4%	22.0%	25.0%	23.6%	21.2%	
Change in Usable Reserves	50.7%	128.5%	159.4%	59.6%	14.6%	
Council Tax Requirement / Net Revenue (%)	24.5%	25.5%	25.4%	25.0%	23.4%	

Ratios/Measures	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	
Unallocated Reserves	2.5%	2.4%	2.3%	2.1%	2.0%	
Earmarked Reserves	11.7%	13.3%	14.1%	14.5%	13.2%	
Change in Unallocated Reserves (over last 3 years)	10.0%	16.1%	0.8%	-2.9%	1.3%	
Change in HRA Reserves (over last 3 years)	24.6%	23.6%	22.7%	-3.6%	-28.4%	
Current Ratio	81.6%	63.6%	49.7%	47.1%	40.9%	
Working Capital	£0k	£0k	£0k	£0k	£0k	
	Creation of Resources & Gearing					
Net Worth / Net Direct & Indirect Debt (%)	101.8%	101.9%	97.4%	78.3%	66.5%	
Net Direct & Indirect Debt / Net Revenue inc. HRA (%)	228.9%	235.8%	248.2%	256.7%	261.9%	
Capital Financing Requirement / Total Gross Income (%)	115.8%	121.9%	142.2%	137.2%	150.7%	
Short-Term Direct Debt / Direct Debt (%)	18.8%	17.6%	22.4%	26.3%	25.7%	
Interest Payments - GF / Net Revenue (%)	7.9%	8.5%	9.7%	10.6%	10.7%	
Interest Payments - HRA / HRA Revenue (%)	5.7%	6.5%	10.0%	13.3%	17.3%	
Interest Payments / Net Revenue inc. HRA (%)	7.5%	8.1%	9.7%	11.1%	11.7%	
Net Worth	£1,413m	£1,461m	£1,501m	£1,350m	£1,262m	
Gross External Debt	£1,388m	£1,434m	£1,542m	£1,723m	£1,899m	
	Longevity & Trends in Resources					
Adult Social Care Ratio	18.7%*	20.9%	23.4%	21.4%	21.8%	
Children Social Care Ratio	8.7*	8.7%	n/a	n/a	n/a	
Education Ratio	36.5%*	35.9%	n/a	n/a	n/a	
	*** Note:** 2020/21 figures show the impact of increased government funding to support the Covid-19 pandemic, which means that Net Revenue for the year was increased beyond the					

Ratios/Measures	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	
	approved Local Government financial settlement, money was received late in the financial year and remained unspent at 31 March 2021, also resulting in increased useable reserves. This should be considered when reviewing the indicators – 2020/21 was not a regular year.					

6.37 The data on income and expenditure trends has been taken from audited Annual Accounts, budgets, CIPFA and Scottish Government returns, the contracts register and Scottish Government finance circulars.

6.38 For the purposes of materiality and relevance, we have focused on the highest value 'top 20' income streams and expenditure commitments that the Council has (Appendix 1).

6.39 Security of resources will rely on the three lines of defence in the Risk Assurance Maps, including findings and the opinion of internal and external auditors.

6.40 **<u>Using the Financial Resilience Framework</u>**

6.41 Financial resilience ratios, trends and data collated to support a comprehensive view of the Council is not about there being one answer, nor is about a statement of right or wrong. Instead, it is about providing context for decision making and planning. Through understanding other aspects of Council finance, it's expected the Council can consider more than simply balancing the budget. This might include decisions to grow reserves or address an adverse trend in expenditure commitments or reduce borrowing. This will assist the Council to be well informed and can make the choices it is entitled to make.

6.42 Councils have a very long history and decisions have been taken at different times for different reasons both at a local and national government level that leaves each Council today in the situation it is. Therefore, every Council is in a different position, no two Councils will have experienced the same history and it is inevitable the financial resilience of all will be different.

6.43 The financial resilience framework is be used as the basis for understanding the underlying financial position of the Council, from which decisions must be taken, to provide the basis for highlighting where action is required or where it should be considered. The opportunity to get an insight into aspects of Council finance that may only emerge over time and that on an annual cycle could be overlooked or not given sufficient consideration.

6.44 Some ratios having a direct impact on the short-term financial planning of the Council, while other being considered with aspiration and objectives stretching out over the medium to long term.

6.45 The data can act as triggers for action, with the final chosen ratios, where appropriate, to have in place some parameters to define or describe the urgency, scale and pace of action that is required. As the information accumulates then it can act as an early warning of emerging pressures.

6.46 Interpretation of the data has been indicated in the table at 6.36 and if the ratio appears to be stable or improving or if we should be watching it.

Chief Officer – Finance : Summary

6.47 In relation to the "Availability of Resources" indicators there is an unnatural financial position created by the funding provided to support the Covid-19 pandemic as at the end of March 2021. Increased income was paid late in financial year 2020/21, resulting in large sums of funding being carried forward by the Council and this was replicated in all other Scottish Local Authorities. The indicators do show that the Council has maintained its strong reserves position going into subsequent financial years with healthy values of usable reserves and an appropriate sum uncommitted for specific purposes. Rising reserves in 2021/22 and again late funding in respect of resettlement programmes for Ukrainians in 2022/23 pushed reserves further upwards, as did a revaluation of long term investments and a recategorization of capital grants, which are all committed for future projects. Working capital values and the standard affordability test don't present what would be seen as an ideal position (i.e. under 100%) but given the Council's statutory position and treasury management strategy there are no concerns about being unable to meet short-term obligations.

6.48 The Council has maintained strong financial performance into 2025/26 and based on the assumptions within the Quarter 1 Financial Performance results, referred to earlier, the Council aims to maintain a balanced budget although this relies on continued delivery of the budgeted savings and no exposure to additional financial shocks or liabilities. At present use of earmarked reserves is limited to the purposes they are held for and the Council continues to hold uncommitted usable reserves, which it expected to be retained at the end of the financial year.

6.49 The 'Creation of Resources & Gearing" indicators show the cost of capital investment tracking upwards, with the cost of interest on both the General Fund and HRA borrowing now over 10% of net revenue. Upward pressure has also been applied from the higher inflation levels in the last two years and this applying to financing arrangement such as the Bond where the additional cost, alongside rising interest rates has the effect of increasing the future Loans Fund pooled interest rate. This is important as this underpins the calculation of changes that the General Fund and HRA will have to fund in the future. The means of reducing this would be through reducing expenditure (reducing the capital programmes) increasing external grant funding or contributions from partners. The Council has applied all the most recent accounting policy options in respect of the capital financing costs and prudently extending the useful lives of assets to better reflect the actual consumption of the assets a few years ago.

6.50 The value of total external debt must be viewed in the context of the overall assets and resources of the Council as debt arises from investment in our assets. The Net Worth of the Council, after accounting for the debt owed, has reduced to £1.26bn at 31 March 2025. The value of debt has increased over the years in line with the capital programme decisions that have been made for both General Fund and Housing. Through reference to the approved Prudential Indicators, that accompanied the 2025/26 budget in March 2025, the capital financing requirement (CFR, as referenced in section 4) is planned to increase and there will be corresponding increases to the annual repayment values. These have been included in the financial scenario planning within this strategy. Changes in interest rates have also been factored into forward projections in the MTFS for the cost of financing debt however the cost of borrowing is continuing to increase and inflation impacts approximately 25% of the external debt, the remaining 75% being based on fixed interest agreements.

6.51 The longevity and trends in resources is the least developed currently, and while there is information available it requires further analysis before fully presenting it. That includes the schedule of most valuable income streams and highest value contractual obligations and have been updated to show 2024/25 as the base year. These are shown in Appendix 1.

6.53 An overview of the top 20 income streams shows a picture of generally increasing income on major areas of the budget. Notable however is the extent to which high value income is often associated directly with spend on specific functions and obligations, such as Housing Benefit (where the downward trend is to be expected due to the rollout of Universal Credit), and the Aberdeen Roads Ltd Contract payment, which matches the expenditure also incurred.

6.54 General Revenue Grant shows the impact of additional funding being provided and passported to the Health and Social Care Partnership through the financial settlement and direction of Scottish Government. There has also been funding to support pay awards now for the last three years, and expected for the confirmed 2026/27 pay awards, and this is making a difference. None of this represents an underlying increase in funding for core/current services making the analysis complex. Council Tax increases in recent years were showing as a positive development. The acceptance of the Council Tax freeze grant provided by Scottish Government for 2024/25 shifted the emphasis towards reliance on Revenue Grant Funding to support services for that financial year, but the trend was restored for 2025/26 when the Council Tax Band D increase was approved at 9.85%

6.55 Over the 20 categories of income it represents over £900m of income to deliver the gross cost of Council services, showing how much the Council relies on these very specific funding streams.

6.56 Looking at the expenditure table, there is substantial fixed cost associated with the top 20 commitments, determined and influenced by national conditions, contractual obligations and statutory duties. Representing over £750m of expenditure it demonstrates the categories of spend that need to be influenced and changed to support major resource changes, savings and cost reductions.

6.57 As noted above there are many of these expenditure categories or contracts that need to be looked at as cost neutral as the income is funding the delivery of our services. The Council should continue to ensure that is the case and not commit additional expenditure/cost to these fully funded areas of spend.

6.58 Similar to the income the influence of potential change coming in the future from statutory or policy changes and review is an important factor, and the Council should use this as a means of determining how cost reduction can be incorporated alongside the changes.

6.59 **Future development**

6.60 As referred to above, the Council has group entities that are incorporated into its accounts and therefore holds risk and reward from the relationships that it has. Given the cost of living, inflation and supply chain challenges plus the legacy impact of the pandemic on the group entities, to work with them and analyse their balance sheets and income and expenditure sensitivities, will be an important next step in understanding the relevant exposure that the Council has to each and to document this in an appropriate way. Prioritisation of this work is required when resources allow. This is more important as the resources and demand for social care services continue to be under increased pressure and financial constraint.

6.62 The ambition is that with further development and engagement with stakeholders in Scotland this can become more meaningful. Work already published in the Local Government Benchmarking Framework (LGBF) from 2019/20 onwards shows the extent of variation in respect of some of the key indicators that support sustainability and care needs to be taken in interpreting the results, particularly differences between Councils where, for example, some no longer have Housing Revenue Accounts.

6.63 Further work will have to be done on appropriate comparison with other Councils to set the Aberdeen City data in context, rather than for direct comparison, as each

Council is following a different strategic plan and are at different stages in those plans and by using information from a common data set, prepared using the same accounting standards it gives the opportunity to compare the Council with its peers. Taking this forward, our Framework has been shared with the Director of Finance Section for Scottish Local Government and has been added to their work plan. Conclusions and recommendations from that work will be updated as part of future strategies.

APPENDIX 1 : TOP 20 INCOME AND EXPENDITURE CATEGORIES

Top 20 Revenue Income Sources by Value 2024/25

	Title	Type of Income	2024/25 Actual Value £'000	last 3-year change (22/23) £'000	last 5-year change (20/21) £'000	Continues for at least 5 years?	Subject to regulation/ policy change in next 2 years?	Dependencies
1	GRG + NDR Distribution	Non-Specific Grant	469,337	79,324	89,644	Yes	Yes	Barclay review - Spending Review
2	Council Tax	Fiscal Powers	143,678	10,541	20,277	Yes	Yes	SG / LG Fiscal Framework Outcomes
3	Building Services	Fees & Charges	55,114	7,841	24,690	Yes	No	HRA work programme
4	NHS Grampian	Specific Grant	48,175	2,060	(3,277)	No	Yes	NCS (Scotland) Bill
5	AWPR / Aberdeen Roads Ltd	Specific Grant	44,781	(1,005)	(4,770)	Yes	No	Contract terms and conditions
6	Housing Benefit	Specific Grant	35,851	(509)	(8,610)	Yes	No	Universal Credit & Economic Conditions
7	Capital cluster - General Fund Capital	Fees & Charges	23,732	511	(6,043)	Yes	No	Capital programmes
8	Property Letting	Fees & Charges	20,495	(2,352)	7,290	Yes	Yes	Economic conditions in Aberdeen
9	Adult Social Care Residential	Fees & Charges	13,305	4,092	7,558	No	Yes	NCS (Scotland) Bill
10	Capital cluster - Housing Capital	Fees & Charges	9,328	3,218	7,668	Yes	No	Capital programmes
11	Parking Charges/Fines	Fees & Charges	9,803	5,524	6,216	Yes	No	Customer behaviour
12	Aberdeenshire Council Charges	Fees & Charges	7,913	(13,307)	(18,949)	Yes	No	Capital programmes
13	Common Good Charges	Fees & Charges	4,264	2,162	2,418	Yes	Yes	Council review of Common Good
14	Temporary Homeless Flats	Fees & Charges	3,692	1,257	177	Yes	No	Homeless numbers
15	Moray Council Charges	Fees & Charges	2,919	17	9,450	Yes	No	Capital programmes
16	NESPF Charges	Fees & Charges	2,161	227	580	Yes	Unknown	National LGPS Review in Scotland remains a commitment
17	Planning / Building Control Fees	Fees & Charges	2,146	(35)	407	Yes	Yes	Statutory basis, resourcing consultation summer 2024
18	Bereavement Services Fees	Fees & Charges	1,918	171	73	Yes	No	Competition
19	Secondary School Meals	Fees & Charges	1,586	625	1,151	Yes	Unknown	Competition/Scottish Government Policy
20	Childcare	Fees & Charges	837	249	666	Yes	No	Customer behaviour
			901,036	100,610	136,617			

APPENDIX 1 : TOP 20 INCOME AND EXPENDITURE CATEGORIES (cont.)

	Title	Type of Expenditure	2024/25 Actual Value £'000	last 3-year change (22/23) £'000	last 5-year change (20/21) £'000	Continues for at least 5 years?	Subject to regulation/ policy change in next 2 years?	Dependencies
1	Pay bill - non teachers	Staff	228,761	76,842	43,312	Yes	No	Local Terms & Conditions & National pay negotiations NCS (Scotland) Bill
2	Pay bill - teachers	Staff	134,360	21,226	34,828	Yes	No	National Terms & Conditions & pay negotiations
3	Care Home Placement - Adults	Contracts	67,177	11,288	15,456	No	Yes	NCS (Scotland) Bill
4	Capital Financing Costs	Capital Financing	60,101	23,017	26,090	Yes	Yes	Capital programme
5	AWPR / Aberdeen Roads Ltd	Contracts	44,842	(944)	(4,708)	Yes	No	Contract terms and conditions
6	Housing Benefits	Transfer	38,694	(388)	(7,701)	Yes	No	Universal Credit & Economic Conditions
7	Bon Accord Care - ALEO	Contracts	35,954	(2,217)	3,233	No	Yes	NCS (Scotland) Bill
8	Unitary Charge - Schools	Assets	22,262	2,088	2,930	Yes	No	Inflation & Number of Buildings
9	Utilities	Assets	21,436	2,029	11,288	Yes	No	Inflation
10	Waste Disposal Contracts	Contracts	18,968	(12)	1,076	No	Yes	Contract terms and conditions
11	Out of Authority - Children	Contracts	16,759	4,834	4,098	No	Yes	NCS (Scotland) Bill
12	Non-domestic Rates	Assets	14,889	754	4,911	Yes	Yes	Number & Value of Buildings
13	ELC Provider Payments	Contracts	12,343	2,013	507	Yes	Unknown	Living Wage & sustainable rate
14	External Rents	Assets	8,817	1,538	1,666	Yes	No	Contract terms and conditions
15	Fostering Payments - External	Contracts	8,768	(737)	(1,608)	No	Yes	NCS (Scotland) Bill
16	Software Licences	Contracts	7,848	1,823	4,095	Yes	No	Inflation
17	Hire of Vehicles	Contracts	5,606	704	1,558	Yes	Yes	Number of Employees
18	Sport Aberdeen - ALEO	Contracts	3,392	(1,423)	(1,277)	Yes	No	Budget decisions
19	Homeless - Hotel & B&B Charges	contracts	2,319	1,662	2,027	Yes	No	Rapid Re-housing programme
20	Provision for Bad Debt	Contracts	612	(2,714)	(2,912)	Yes	No	Collection levels
			753,907	**141,382**	**138,869**			

APPENDIX 2 :
2025/26 – 2029/30 GENERAL FUND CAPITAL PROGRAMME

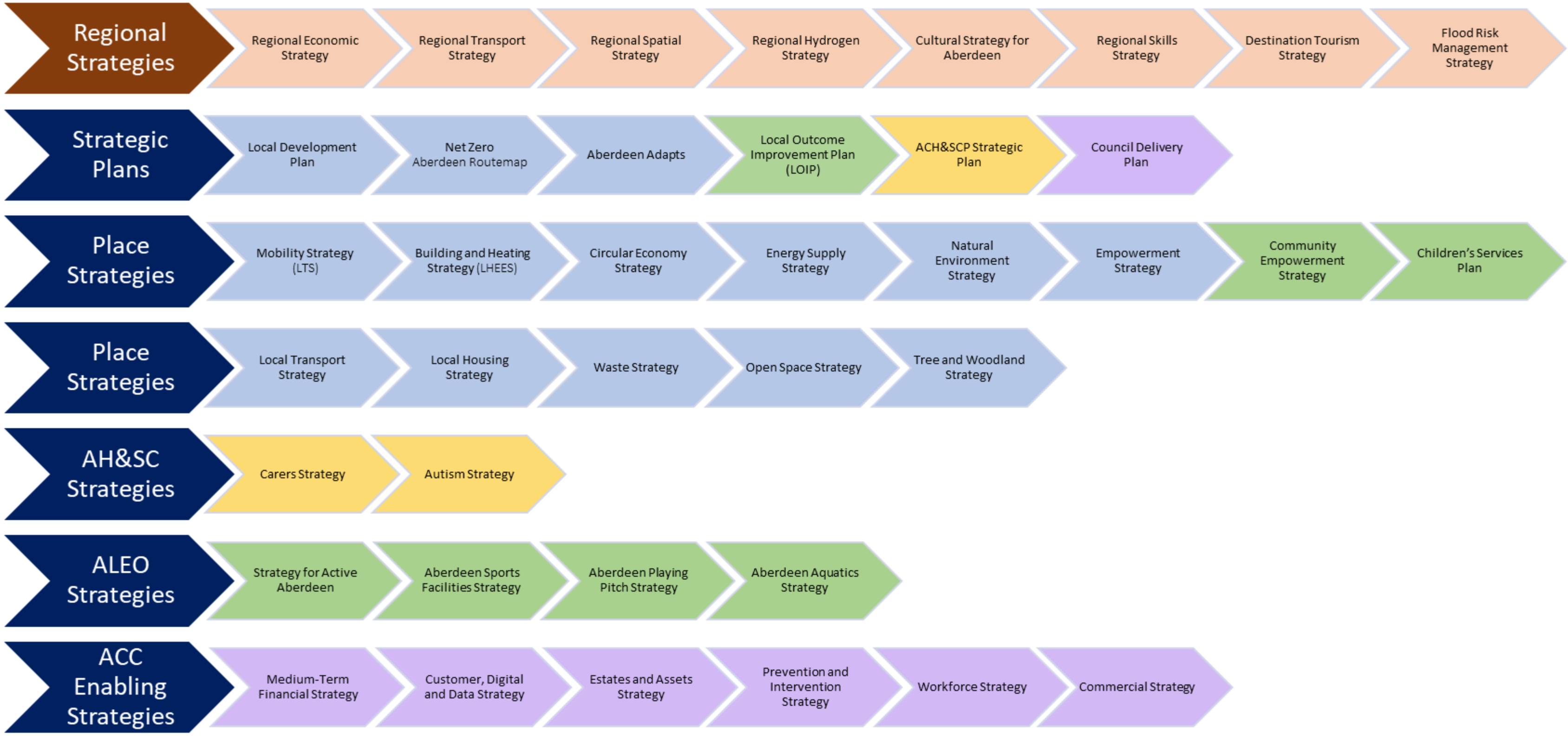
NHCP No.	Updated General Fund Capital Programme	Forecast Outturn 2025/26 £'000	Budget 2026/27 £'000	Budget 2027/28 £'000	Budget 2028/29 £'000	Budget 2029/30 £'000	5 Year Total £'000
	Projects Due for Completion in 2025/26						
841	Greyhope School and Hub	354	0	0	0	0	354
887	Play Park Renewal Programme	206	0	0	0	0	206
888	Nature Restoration Fund	198	0	0	0	0	198
894	Joint Integrated Mortuary	3,325	0	0	0	0	3,325
939	Investment in Education ICT	3,413	0	0	0	0	3,413
947C	Council Climate Plan Increase natural grassland and wildflowers	60	0	0	0	0	60
947D	Council Climate Plan Community run greenspaces	31	0	0	0	0	31
949	Tillydrone Cruyff Court	105	0	0	0	0	105
960	Refurbishment Business Case for Beach Ballroom	200	0	0	0	0	200
963	Recycling Improvement Fund - Re-Use Hubs	579	0	0	0	0	579
		8,471	**0**	**0**	**0**	**0**	**8,471**
	Rolling Programmes						
294	Corporate Property Condition & Suitability	8,545	8,750	8,750	8,750	8,750	43,545
551	Cycling Walking Safer Routes / Tier 1 Active Travel	1,660	0	0	0	0	1,660
765G	Nestrans Capital Grant	1,000	1,000	1,000	1,000	1,000	5,000
779	Private Sector Housing Grant (PSHG)	761	650	650	650	650	3,361
784	Fleet Replacement Programme	6,102	5,411	5,000	4,500	4,500	25,513
789	Planned Renewal & Replacement of Roads Infrastructure	6,696	5,336	4,452	4,000	4,000	24,484
789E	Street Lighting	1,000	920	919	800	800	4,439
789H	Coast Protection - Aberdeen Beach Seawall	2,000	2,000	2,000	0	0	6,000
861	Additional Investment in Roads	4,388	2,500	4,500	4,500	4,500	20,388
875	Investment in Digital Transformation	2,402	0	0	0	0	2,402
		34,554	**26,567**	**27,271**	**24,200**	**24,200**	**136,792**
	City Region Deal						
825	City Deal	20	0	0	0	0	20
845	City Deal: Strategic Transport Appraisal	410	500	0	0	0	910
847	City Deal: Digital Infrastructure	765	750	0	0	0	1,515
852	City Deal: City Duct Network	1,088	0	0	0	0	1,088
854	City Deal: Transportation Links to Bay of Nigg	7,270	7,980	6,419	0	0	21,669
909	City Deal: Wellington Road	106	0	0	0	0	106
957	City Deal: Wellington Road	95	0	0	0	0	95
		9,754	**9,230**	**6,419**	**0**	**0**	**25,403**
	Fully Legally Committed Projects						
587	Access from the North / 3rd Don Crossing	150	140	140	140	100	670
810J	Bridge of Don Household Waste Recycling Centre (HWRC)	1,161	110	0	0	0	1,271
810K	Energy from Waste (EfW) Construction	778	0	0	0	0	778
810K	Torry Heat Network	2,197	0	0	0	0	2,197
819	Tillydrone Community Hub	279	0	0	0	0	279
824	City Centre Regeneration	2,849	0	0	0	0	2,849
840	Tillydrone Primary School	3,165	597	0	0	0	3,762
859	ICT: Human Capital Management System	92	0	0	0	0	92
868	Car Parking Infrastructure	876	0	0	0	0	876
883B	City Centre and Beach Masterplans: Union Street Central	9,933	5,229	0	0	0	15,162
884	Torry Development Trust - Former Victoria Road School	0	0	0	0	0	0
885	Place Based Investment Fund	491	0	0	0	0	491
891	Aberdeen Hydrogen Hub (Joint Venture with bp)	8,792	3,000	0	0	0	11,792
910	Inchgarth Community Centre	1,906	1,500	250	0	0	3,656
911	A5 - Review signage in all schools	62	0	0	0	0	62
918	H3 - Ferryhill School Suitability Improvements	6,979	5,800	200	0	0	12,979
932	Expansion of mandatory 20mph limits in residential areas	1,026	400	400	400	0	2,226
940	Bairns Hoose Business Case	1,286	29	0	0	0	1,315
954	Bucksburn Pool Refurbishment	2,492	25	0	0	0	2,517
958	Demolition of Beach Leisure Centre	2,366	0	0	0	0	2,366
998	Final Retentions & Snagging	2,790	0	0	0	0	2,790
		49,670	**16,830**	**990**	**540**	**100**	**68,130**

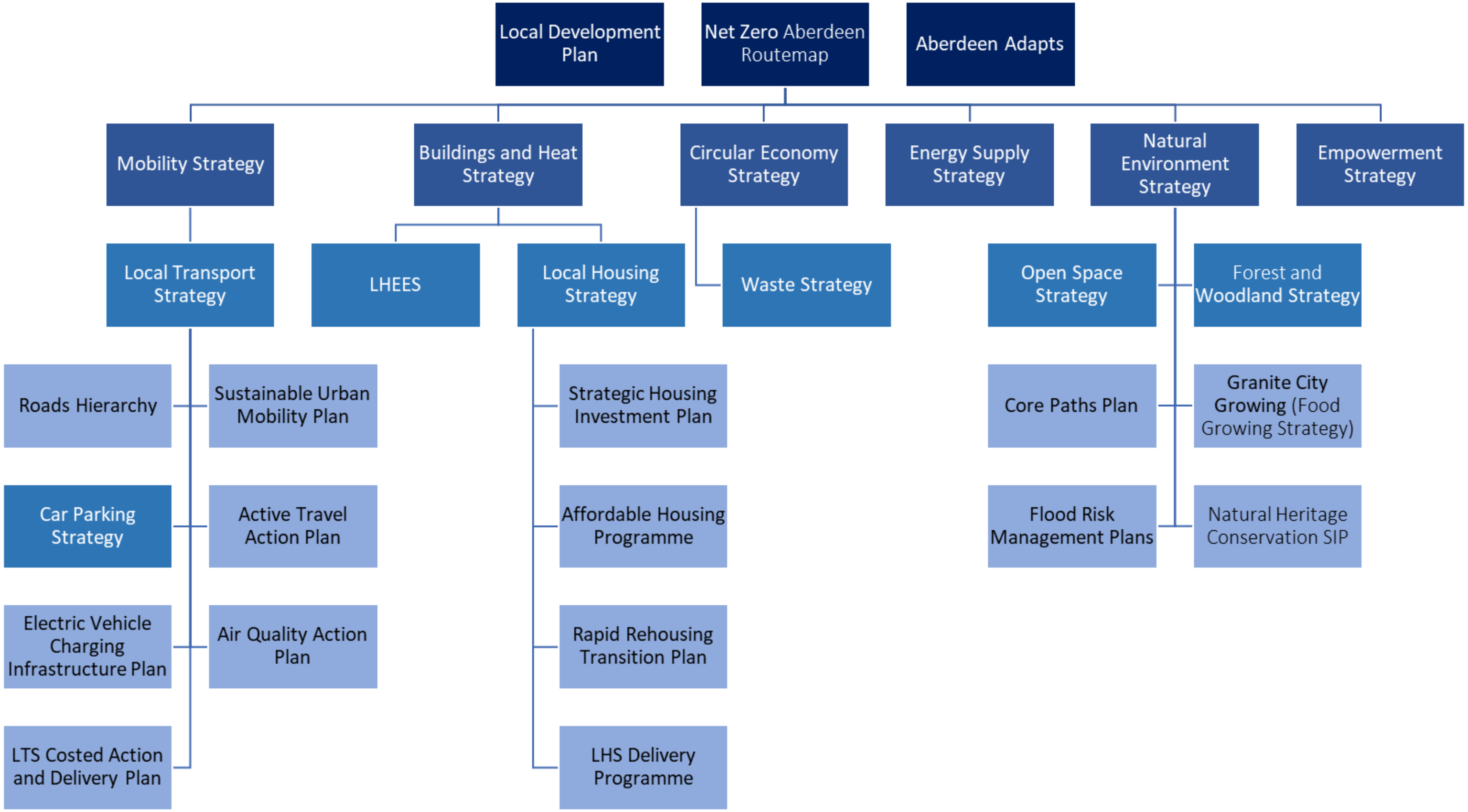
	Partially Legally Committed Projects						
791	Strategic Land Acquisition	2,134	2,500	0	0	0	4,634
806B	CATI - Berryden Corridor (Combined Stages 1, 2 & 3)	2,795	21,500	20,300	9,000	1,500	55,095
806D	Berryden Corridor - Ashgrove Connects	1,316	0	0	0	0	1,316
808B	New Academy to the South - Infrastructure Improvements	0	0	280	0	0	280
836	Flood Prevention Measures: Flood Guards Grant Scheme	101	100	100	100	48	449
844	Sustrans Active Travel Infrastructure Fund	0	465	400	0	0	865
869	Safety and Security Measures (including CCTV)	942	0	0	0	0	942
872	Smart City	0	270	0	0	0	270
873	Queen Street Redevelopment (Phase 1) - Urban Park	2,108	3,500	3,300	3,000	0	11,908
874	B999 Shielhill Road Junction Improvements	1,535	400	0	0	0	1,935
881	Hydrogen Programme	2,500	772	0	0	0	3,272
883A	City Centre and Beach Masterplans: Market Redevelopment	10,881	17,323	3,518	0	0	31,722
883C	City Centre and Beach Masterplans: Beachfront	43,462	5,000	0	0	0	48,462
883D	City Centre and Beach Masterplans: Other Projects & Grants	8,017	4,000	0	0	0	12,017
883E	CCMP Phase 4: Castlegate	8,987	3,981	150	0	0	13,118
883F	CCMP Phase 4: Union Street East	1,500	500	0	11,000	7,500	20,500
883K	Demolition for Former Police HQ Queen Street	2,000	4,500	0	0	0	6,500
895	St Peters RC Primary Relocation	6,660	16,000	3,750	170	0	26,580
904	Photovoltaic Systems	300	300	0	0	0	600
907	School Estate Plan - Fesibility Studies	257	0	0	0	0	257
908	Expansion of Free School Meals	2,000	1,172	0	0	0	3,172
913	B1 - Bucksburn Academy Extension	2,451	15,735	2,720	269	0	21,175
916	H1 - Rubislaw & Harlaw Rd Sportsfields review	2,744	50	0	0	0	2,794
917	H2 School Estate Plan and Improvements	4,323	2,000	350	0	0	6,673
920	HH2 - Hazlehead / Countesswells Secondary Provision	10,333	43,000	53,000	16,836	0	123,169
927	S3 - St Machar Academy outdoor space improvements	989	0	0	0	0	989
930	Road Safety Fund	596	200	200	0	0	996
931	New Cycle Lockers	22	10	10	10	10	62
933	Installation of New Bus Shelters	208	142	142	0	0	492
935	Electric Vehicle Charging Network	4,263	3,000	3,000	0	0	10,263
937	Extend Aberdeen's district heating network	1,972	13,000	15,000	4,534	0	34,506
943	Union Street Empty Shop Units	703	0	0	0	0	703
944	Asset Rationalisation - Site Preparation & Clearance	50	450	450	450	450	1,850
947A	Council Climate Plan Local Heat and Energy Efficiency Strategy	60	60	0	0	0	120
947E	Council Climate Plan Increase food growing	100	0	0	0	0	100
947F	Council Climate Plan Redesign Car Club	52	0	0	0	0	52
948	CCMP Phase 3: Schoolhill and Upperkirkgate	0	0	0	0	0	0
951	Denburn Restoration	130	318	1,026	90	0	1,564
952	Coastal Change Adaption Grant	199	0	0	0	0	199
955	Aberdeen City Heritage Trust	0	150	150	0	0	300
961	Climate Emergency	1,436	0	0	0	0	1,436
		128,126	**160,398**	**107,846**	**45,459**	**9,508**	**451,337**

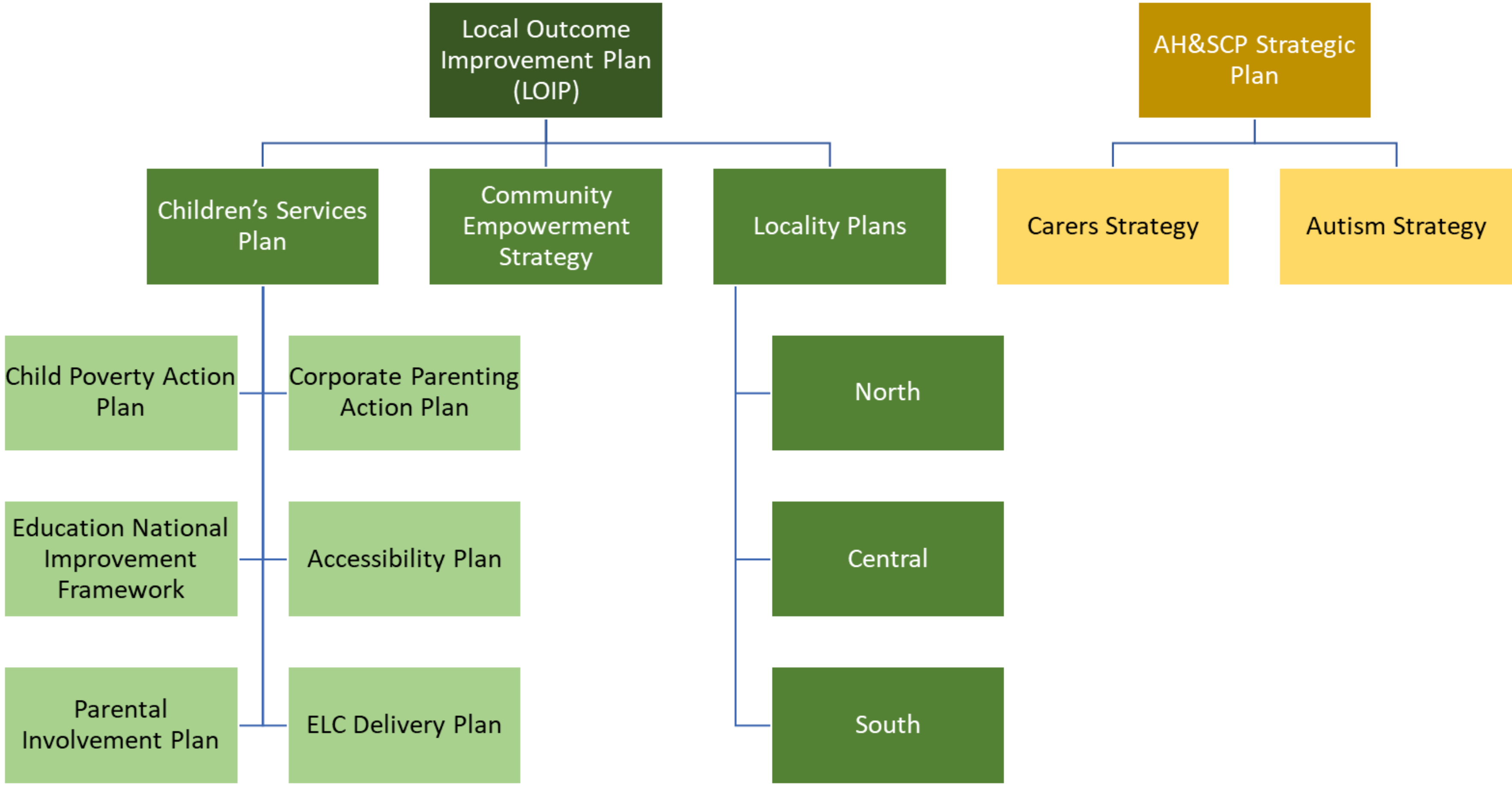
	Projects with indicative budgets						
838	Flood Prevention Measures: Millside & Paddock Peterculter	0	200	2,200	0	0	2,400
883G	CCMP Phase 5: Union Street West and West End	0	0	0	0	0	0
883H	CCMP Phase 6: Market Street to Guild Street Phases 2 & 3	0	0	0	0	0	0
883J	Beach MasterPlan Phases B & C up to end of RIBA 4	0	0	0	0	0	0
912	AG1 - Aberdeen Grammar School increasing roll	150	0	0	0	0	150
914	B2 - Bucksburn / Newhills additional primary school	0	0	0	1,795	14,000	15,795
915	CA1 - Victorian School Buildings	400	0	0	1,000	1,000	2,400
919	HH1 Countesswells 2nd new Primary School	0	0	0	0	0	0
921	L1 - Loirston Loch additional primary provision	0	0	0	0	750	750
922	N2 - Northfield ASG Primary School Excess Capacity	0	0	0	0	0	0
923	NA1 - Grandhome / Oldmachar / Bridge of Don secondary provision	0	0	0	0	3,050	3,050
924	O1 - Grandhome additional primary schools	0	0	1,795	8,100	6,355	16,250
925	O3 - Oldmachar ASG Primary School Excess Capacity	0	0	500	0	0	500
926	RC2 - Denominational Primary Schools Feasibility	0	0	0	5,000	5,000	10,000
928	NA2 - Bucksburn & Dyce secondary provision	0	0	0	500	0	500
929	N1 - Westpark & Heathryburn Schools increasing rolls	0	0	0	0	0	0
934	Options for New River Dee foot and cycle bridge	0	0	0	0	0	0
936	Kittybrewster Feasibility and Condition Suitability	289	1,400	1,100	0	0	2,789
938	Play Park Maintenance and Investment	0	175	175	175	175	700
941	Burial Grounds	100	150	1,600	0	0	1,850
947B	Council Climate Plan Feasibility studies for net zero	300	300	300	244	0	1,144
947G	Council Climate Plan Climate Data Tool	100	0	0	0	0	100
953	Community Bus Fund	4	0	0	0	0	4
959	Kincorth Cruyff Court	300	450	0	0	0	750
962	Bus Infrastructure Fund Tier 1	50	0	0	0	0	50
964	Bus Infrastructure Fund Tier 2	995	0	0	0	0	995
965	Hazlehead Heat Network Expansion	2,210	0	0	0	0	2,210
999	Contingency	3,440	3,000	0	0	0	6,440
		8,338	**5,675**	**7,670**	**16,814**	**30,330**	**68,827**
	Totals	**238,913**	**218,700**	**150,196**	**87,013**	**64,138**	**758,960**

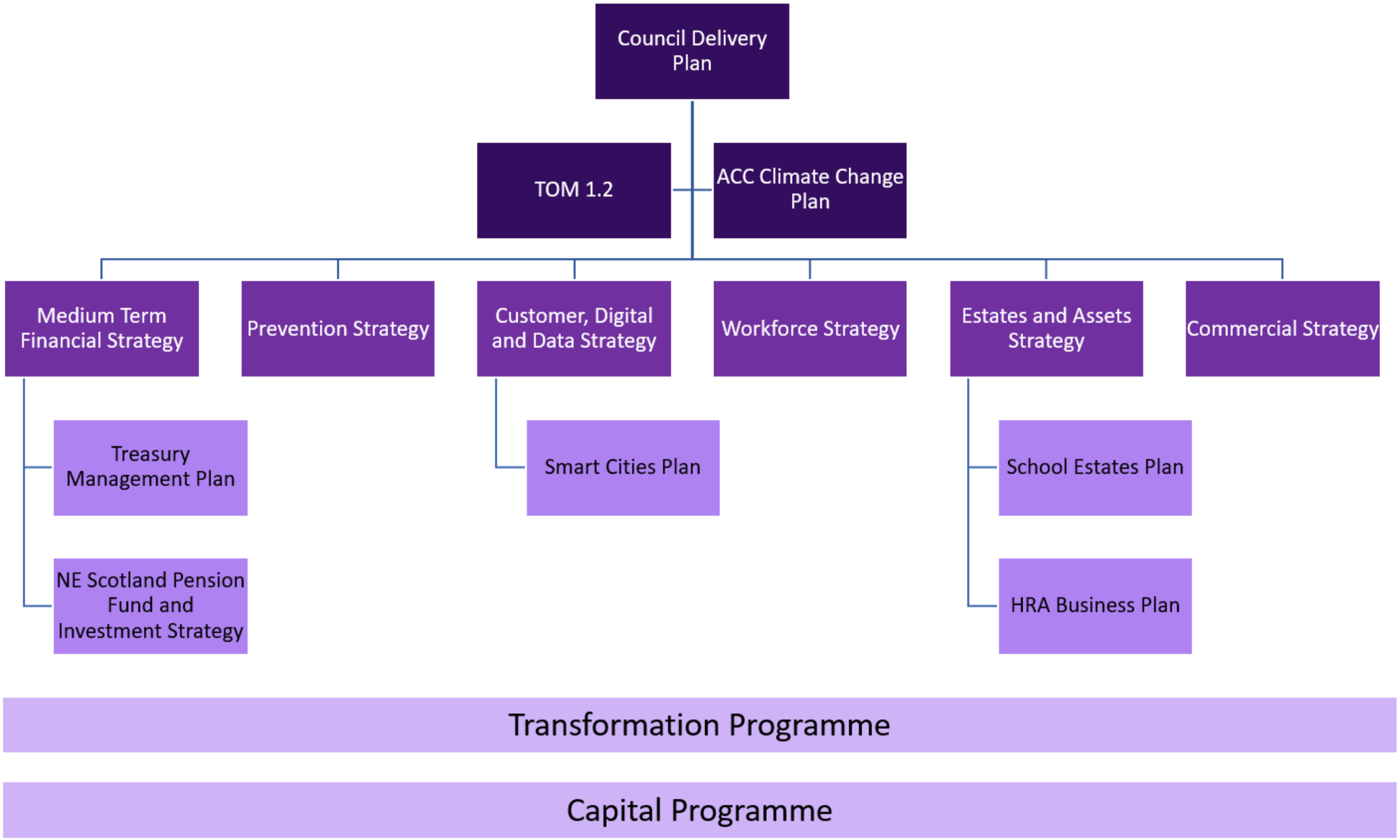
NHCP No.	General Fund Capital Programme - Funding	Forecast Outturn 2025/26 £'000	Budget 2026/27 £'000	Budget 2027/28 £'000	Budget 2028/29 £'000	Budget 2029/30 £'000	5 Year Total £'000
587	Access from the North / 3rd Don Crossing	0	(2,000)	0	0	0	(2,000)
806D	Berryden Corridor - Ashgrove Connects	(1,316)	0	0	0	0	(1,316)
809	New Milltimber Primary	(832)	(800)	0	0	0	(1,632)
828	Greenbrae Primary Extension and Internal Works	0	(115)	0	0	0	(115)
831	Stoneywood Primary	0	(1,000)	(1,000)	(486)	0	(2,486)
836	Flood Prevention Measures: Flood Guards Grant Scheme	(80)	(80)	(80)	(80)	(37)	(357)
838	Flood Prevention Measures - Peterculter	0	(200)	(2,200)	0	0	(2,400)
852	City Deal: City Duct Network	(1,088)	0	0	0	0	(1,088)
854	City Deal: Transportation Links to Bay of Nigg	(7,270)	(7,980)	(6,419)	0	0	(21,669)
865	Countesswells Primary	0	(1,080)	(2,000)	(2,000)	(2,000)	(7,080)
883	City Centre and Beach Masterplans	(4,953)	0	0	0	0	(4,953)
884	Torry Development Trust - Former Victoria Road School	0	0	0	0	0	0
885	Place Based Investment Fund	(491)	0	0	0	0	(491)
894	Joint Integrated Mortuary	(2,863)	0	0	0	0	(2,863)
909	City Deal: Wellington Road	(106)	0	0	0	0	(106)
910	Inchgarth Community Centre	(1,456)	0	0	0	0	(1,456)
913	B1 - Bucksburn Academy Extension - OBC	0	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
914	B2 - Bucksburn / Newhills additional primary provision - OBC	0	0	0	(1,500)	(1,500)	(3,000)
920	HH2 - Hazlehead / Countesswells Secondary Provision - OBC	0	0	0	0	(6,300)	(6,300)
921	L1 - Loirston Loch additional primary provision - OBC	0	0	0	0	(1,000)	(1,000)
919	HH1 Countesswells 2nd new Primary School	0	0	0	(1,000)	(1,000)	(2,000)
924	O1 - Grandhome primary schools	0	0	(1,000)	(1,000)	(1,000)	(3,000)
930	Road Safety Fund	(396)	0	0	0	0	(396)
931	New Cycle Lockers	(12)	0	0	0	0	(12)
932	Expansion of mandatory 20mph limits in residential areas	(1,026)	(400)	(400)	(400)	0	(2,226)
935	Electric Vehicle Charging Network	(3,000)	(3,000)	(3,000)	0	0	(9,000)
951	Denburn Restoration	(130)	(318)	(1,026)	(90)	0	(1,564)
954	Bucksburn Pool Refurbishment	(223)	0	0	0	0	(223)
957	City: Deal: Aberdeen Rapid Transit	(95)	0	0	0	0	(95)
963	Recycling Improvement Fund - Re-Use Hubs	(579)	0	0	0	0	(579)
964	Bus Infrastructure Fund Tier 2	(995)	0	0	0	0	(995)
965	Hazlehead Heat Network Expansion	(2,210)	0	0	0	0	(2,210)
	1. Programme Funding Streams Sub-Total	**(29,121)**	**(17,973)**	**(18,125)**	**(7,556)**	**(13,837)**	**(86,612)**
	2. Capital Grant	**(22,918)**	**(18,000)**	**(18,000)**	**(18,000)**	**(18,512)**	(95,430)
	3. Borrowing	**(186,874)**	**(182,727)**	**(114,071)**	**(61,457)**	**(31,789)**	(576,918)
	Sub-total	**(238,913)**	**(218,700)**	**(150,196)**	**(87,013)**	**(64,138)**	**(758,960)**
	Net Position	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX 3 : STRATEGY FRAMEWORK




Local Development Plan
Net Zero Aberdeen Routemap
Aberdeen Adapts
Mobility Strategy
Buildings and Heat Strategy
Circular Economy Strategy
Energy Supply Strategy
Natural Environment Strategy
Empowerment Strategy
Local Transport Strategy
LHEES
Local Housing Strategy
Waste Strategy
Open Space Strategy
Forest and Woodland Strategy
Roads Hierarchy
Sustainable Urban Mobility Plan
Car Parking Strategy
Active Travel Action Plan
Electric Vehicle Charging Infrastructure Plan
Air Quality Action Plan
LTS Costed Action and Delivery Plan
Strategic Housing Investment Plan
Affordable Housing Programme
Rapid Rehousing Transition Plan
LHS Delivery Programme
Core Paths Plan
Granite City Growing (Food Growing Strategy)
Flood Risk Management Plans
Natural Heritage Conservation SIP


Local Outcome Improvement Plan (LOIP)
AH&SCP Strategic Plan
Children's Services Plan
Community Empowerment Strategy
Locality Plans
Carers Strategy
Autism Strategy
Child Poverty Action Plan
Corporate Parenting Action Plan
North
Education National Improvement Framework
Accessibility Plan
Central
Parental Involvement Plan
ELC Delivery Plan
South


Council Delivery Plan
TOM 1.2
ACC Climate Change Plan
Medium Term Financial Strategy
Prevention Strategy
Customer, Digital and Data Strategy
Workforce Strategy
Estates and Assets Strategy
Commercial Strategy
Treasury Management Plan
NE Scotland Pension Fund and Investment Strategy
Smart Cities Plan
School Estates Plan
HRA Business Plan
Transformation Programme
Capital Programme