# *MEDIUM TERM FINANCIAL STRATEGY FOR THE COUNCIL'S GENERAL FUND, 2021*

ABERDEEN
CITY COUNCIL

# Contents Page

# 1. INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) is a 7 year plan which sets out our commitment to provide services that meet the needs of people locally and represents good 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's programme of change is centred around three areas:

**Our purpose (what our business is):** To ensure the alignment of all Council strategies and plans to the Local Outcome Improvement Plan's (LOIP) vision 'A place where all people can prosper' as well as ensuring clear delivery plans for the Council's own set of strategies and priorities.

**How we do business:** The modernisation and transformation of how we deliver our services through making best use of technology.

**How we behave as an organisation:** A focus on the Council's culture.

1.4 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 direct resources to the Council's priorities to support the achievement of the Council Delivery Plan;
- To maximise income to support the priorities of the council;
- To analyse budget performance to assess the effectiveness of resource allocation;
- To continue 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 prudent, robust, stable and sustainable.

1.5 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 all known factors affecting the financial position and financial sustainability of an organisation over the medium term.

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

1.6 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 and therefore the shape of services is determined by how much subsidy (grant) is provided. Complexity multiplies as the statutory duties and commitments increase.

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

- the current ratio between locally and nationally determined levels of taxation and fees and charges; and

- whether government provides certainty re levels of government grant beyond the immediate next financial year.

1.8 The global health pandemic that occurred in 2020 and continues to affect our daily lives makes the task of medium and long-term financial planning even more challenging. Governments across the world have invested significantly in financial rescue plans to mitigate the economic impact of the public health measures introduced to combat the virus. Whilst attention has shifted towards supporting economic recovery, there is much still being done to respond to the pandemic and this consumes high levels of resources. Economic recovery will be vital if governments are to be able to repay the borrowing incurred to support the financial rescue plans currently in place.

1.9 Both the UK and Scottish Government will be required to make political choices in terms of future funding both in the short, medium and long term – all of which will have a bearing on the council's own short, medium and long term financial plans. The UK Governments Spending Review was announced on 27 October 2021 and the Scottish Government, following elections in May 2021, has now set out its Programme for Government[2], with the prospect of a Scottish Budget for 2022/23 being announced on 9 December 2021.

1.10 This medium-term strategy sets out assumptions regarding the ongoing short-term implications of Covid-19 and demand changes in terms of financial year 2022/23 and then goes on to make some informed assumptions for financial years 2023/24 – 2028/29.

1.11 The Council should 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

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

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 are broadly in line with previous forecasts. These scenarios should be refreshed regularly as part of the budget setting and strategic planning processes.

1.12 The detail contained in this document reinforces the conclusion in the 2020 MTFS that the following principles are needed to guide our financial management approach.

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

I. 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.

II. Be prudent in the financial assumption regarding the funding of national priorities and commitments.

III. Exercise the discretion it has over local taxation and increase the Band D charge for Council Tax annually to support future budgets.

IV. Account for any income source that is non-specific as a corporate resource to support the whole revenue budget.

V. 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.

VI. 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.

VII. Identify and evaluate emerging discretionary powers on a regular basis to determine their applicability to Aberdeen City.

VIII. Recognise the ongoing financial risk to the council associated with Covid-19 until an agreed end point is reached for the global pandemic.

IX. Apply its approved Reserves Policy, retaining recommended uncommitted General Fund Reserves and thereby avoiding one-off income streams.

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

I. Scenarios must be developed and the Chief Officer – Finance will, in conjunction with the Extended Corporate Management Team (ECMT), establish appropriate financial assumptions to apply.

II. The council should continue to develop its approach to strategic resource allocation to further shape where and how resources are deployed. Through this approach we will attain greater understanding of how resources align to outcomes and the related impact and consequences of our decisions.

III. Local constraints should be minimised wherever possible to provide as much flexibility to achieve resource shift and deliver savings.

IV. Ensure an alignment between commissioning intentions, service standards and budget allocations thereby ensuring council focuses on the very highest of priorities and on the most important outcomes.

V. Where funding levels cannot sustain existing commissioning intentions and service standards, a clear set of decommissioning intentions and service standard reductions will be submitted to council.

VI. The scale of service redesign will have to increase to address the emerging financial scenarios.

VII. Achieving the scale of savings needed is not possible from small service budgets. There must be a contribution from the large services if financial affordability is maintained, and financial sustainability is to be addressed.

VIII. Slicing a proportion of the budget from all areas of the council is also counterproductive and does not address delivering outcomes. Salami slicing savings are to be avoided.

IX. Capital investment revenue implications must be incorporated into scenario plans, both from ongoing operational delivery and capital financing perspectives.

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

I. Revenue implications of capital investment opportunities must be identified and agreed with the Chief Officer – Finance to incorporate into the council's scenario planning.

II. Capital investment expenditure must be prudent, affordable and sustainable, as defined by the Prudential Code.

III. Financial Resilience Framework data must be considered as part of decision making, including reference to the Risk Appetite Statement.

IV. External funding opportunities should be identified and pursued to support approved capital investment.

V. Priority must be given to the projects that will deliver the greatest return, and this can be measured both financially and socially. A business case must be used to document this analysis.

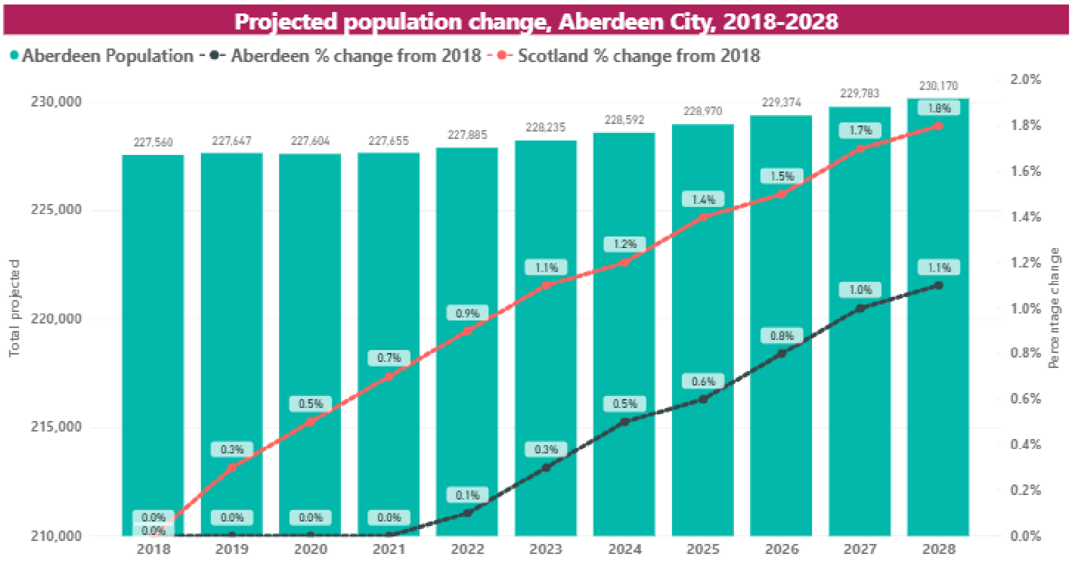
VI. Care needs to be taken of the unknown aspects arising from the coronavirus pandemic and the potential additional costs that may emerge. The council should consider how it creates flexibility in the capital programme to increase contingencies.

VII. The financial, legal and reputation implications of proposing to withdraw from legally or partially committed capital projects within the capital programme must be fully considered and documented.

## 1.16 Aberdeen - Background and Context

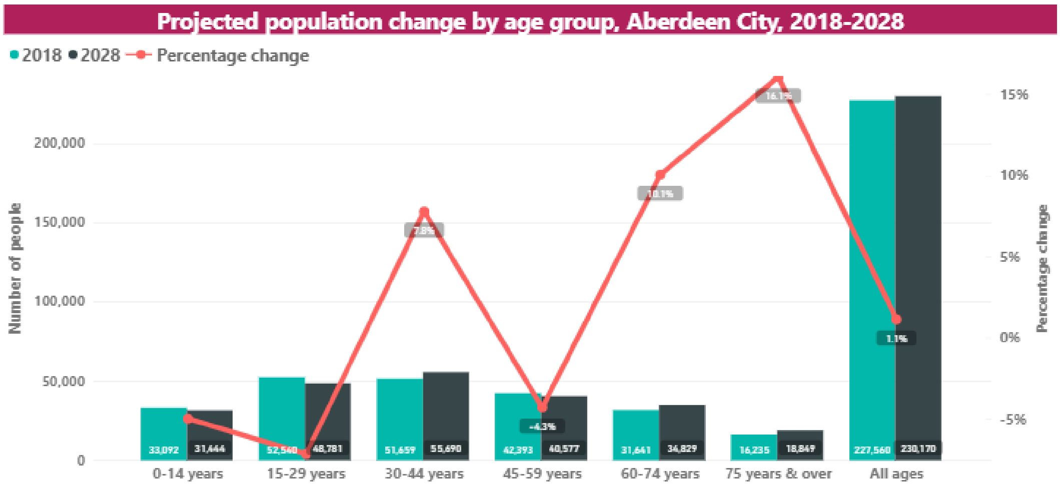
1.16.1 Some of the financial challenges affecting the financial sustainability of all local authorities is the pressure from demographic change and corresponding rising demand. The following section highlights some of the main sources of demand and projected future pressures.

1.16.2 Population - The estimated population of Aberdeen in 2020 was 229,060. This is an increase from the estimated 2019 population of 228,670. The figure below shows the most recently available population projections for the City and Scotland, as published by National Records of Scotland (NRS). This shows that based on recent trends, the total population of the city is projected to increase by more than 11,000 (1.1%) by 2028. This projected increase is lower than the projection for Scotland as a whole, which is 1.8%. However, these projections are based on 2018 data (NRS have delayed their planned update due to Covid-19. This is now due in December 2021, although only at a national level) and the estimated actual population for the city in 2020 is c.1,500 above these projections.




Source: National Records of Scotland, Population Projections for Scottish Areas (2018-based). Updated March 2020.

1.16.3 The age structure of the City's population is projected to show a decline of 5% in those aged 0 -14 years and 7% of those aged 15 – 29 years over the next 10 years. Whilst increases of 10% and 16% respectively are projected for those aged 60 – 74 years and those aged 75+ years. This brings different challenges for the distribution of resources.



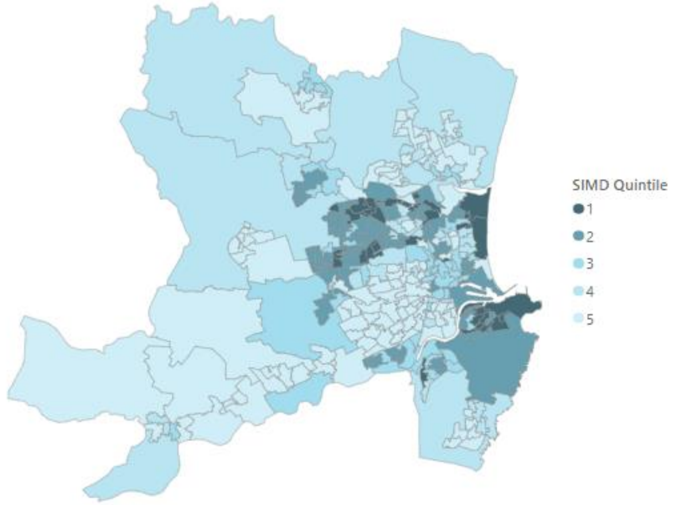
Source: National Records of Scotland, Population Projections for Scottish Areas (2018-based). Updated March 2020.

1.16.4 <u>Housing</u> - There is a considerable demand for housing in Aberdeen. Whilst house prices have fallen in recent years, they remain high. Supply of council and social new build properties has recently boosted supply. Recent years have also seen significant increases in supported accommodation both for older people and people with disabilities.

1.16.5 <u>Deprivation</u> - 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. The Population Needs Assessment prepared in advance of the review of the City's Local Outcome Improvement Plan in 2021 highlighted the following key points:

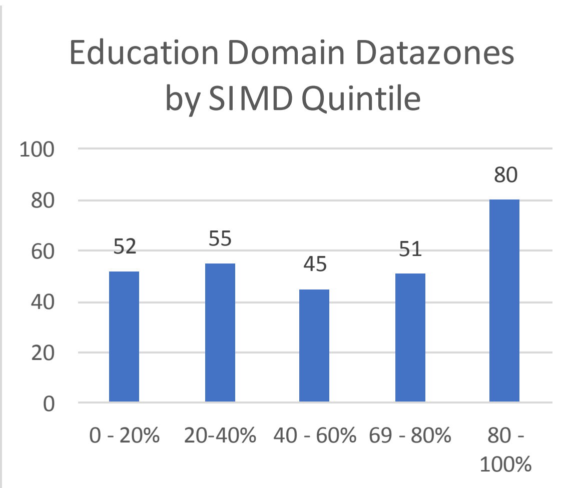
- the impact of the pandemic has been, and will continue to be, felt unequally. This is likely to contribute to greater levels of poverty, inequality and associated vulnerabilities.
- a significant and potentially rapid decline in the working age population is anticipated.
- the city is projected to be amongst the worst affected areas for economic downturn and potential job losses, however, there are still strong economic foundations which can be supported by investment in key infrastructure and a focus on skills, energy transition & diversification.
- rapid and far-reaching change is required to reach the target of net zero by 2045.

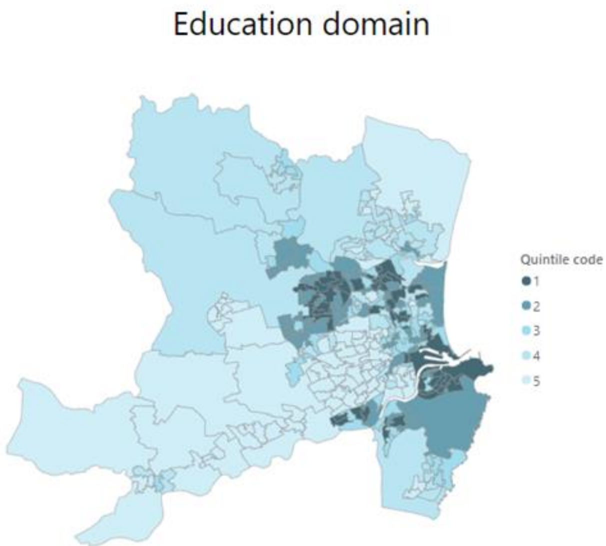
**Areas of Multiple Deprivation 2020**




1.16.6 Education - Significant investment has been made, and continues, to modernise the city's school buildings. In line with falling 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 for schools is based on the population of children and young people. School rolls have increased over recent years; however, the long-term projection is for a reduction in school age children. Should that occur, there will be a significant and corresponding impact on funding levels. Recent years have also seen an increasing trend in the number of pupils with additional support needs and a high demand for child and adolescent mental health services. This will be impacted further because of the pandemic.

1.16.7 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.



1.16.8 <u>Children's Services</u> - Aberdeen has more than 500 children who are "looked after" by the authority (LAC). This is, proportionately slightly higher than the national average (2020 comparisons), a higher rate of the city's LAC are placed either with foster carers or in residential accommodation and a significantly higher proportion of Aberdeen's LAC have a recorded disability. The city is largely consistent with the national average of children on the child protection register (2020 comparisons).

1.16.9 <u>Employment</u> - Aberdeen has had historically high employment. Between April 2020-March 2021 total employment in Aberdeen city was estimated at 119,300. The employment rate for the working age population in the region was 73.5%, which was above the rate for Scotland (72.8%) but below the UK (74.7%). The three major Scottish cities were most affected during the pandemic in terms of job postings, with a larger drop off than the Scottish average. They have also been slower to recover to this baseline level than the national average, providing further evidence of the impact on cities. Most recent September data showed Edinburgh and Glasgow continuing to have monthly postings increases. Aberdeen, after reaching above baseline numbers for the first time in August, then dropped by 10% in September.

1.16.10 Claimant count in Aberdeen City had risen from 4,165 individuals in March 2020 to 9,295 by years end. Since February 2021, numbers have decreased month on month, with the 7,625 individuals of August 2021 the lowest recorded since May 2020. As claimant count provides data on individuals receiving out of work benefit, this shows the situation to be improving. Aberdeen City has 13th highest rate of claimant count receipt as a proportion of working age population of the 32 Scottish local authorities.

### 1.17 Increased financial risk and sensitivity – what Covid-19 means for the immediate short-term

1.17.1 After over 18 months of the UK having Covid-19 restrictions in place (to varying degrees) it is still impossible to say with any degree of certainty just how long the Covid-19 pandemic will last and when we can expect it to come to an end. There is debate about how we should define "the end" - 2 definitions exist each with a separate timeline:

- An epidemiological end point when herd immunity is achieved; and
- A transition to a form of normalcy characterised by vaccination of the highest risk population, accurate testing, improved treatments.

1.17.2 We know that the need for health and social care undergoes large seasonal fluctuations, peaking in the winter. The size and severity of any influenza epidemic this winter is very difficult to estimate. But regardless, a winter influenza epidemic will further compound the pressures being felt by the Covid-19 pandemic. Vaccination programmes across the country continue to be rolled out for both Covid-19 and influenza.

1.17.3 As both the UK and Scottish governments consider their financial plans for 2022/23 and beyond, they will have to make assumptions about the course the pandemic will take over the financial year 2022/23. A high level of external uncertainties – political, social and epidemiological - will however likely remain into 2022.

1.17.4 The council's scenario planning in relation to the epidemiological path of Covid-19, and the related impact of that on the City and Council services, has been ongoing. Surveillance and governance arrangements have been developed to rapidly respond to any movement in restrictions applied across Scotland as transmission rates and harms change.

1.17.5 The Coronavirus pandemic specific funding announcements made by the Chancellor of the Exchequer, have led to over £6.5 billion of additional Barnett consequentials for Scotland. Almost all the funding that flowed to local government applied to the last financial year 2020/21, with smaller sums of funding continuing into 2021/22 for education recovery and protection of our most financially vulnerable citizens, through hardship and free school meal funding. Funding through increased General Revenue Grant payments to support Non-Domestic Rates reliefs in the retail hospitality and leisure sectors has been provided to Council.

1.17.6 In the current year the Council has seen a continued Covid-19 impact, with behavioural changes that have affected income, ongoing restrictions in relation to the opening of buildings, cultural and hospitality venues, particularly in the early months of the financial year. This has been reported in the Council's quarterly financial performance reports.

1.17.7 The impact for next financial year is again difficult to predict with a high level of uncertainty about how the pandemic will continue or end, as described above. At a local government sector level, the speed and scale of economic bounce back economically is crucial to the financial settlement provided to local government, with 100% of the national non-domestic rates (NNDR) income being allocated to local government. If the economic position in 2022/23 means that businesses are unable to create the national income levels, or further reliefs need to be provided to specific sectors of the economy – such as retail, hospitality and leisure this year - then the local government settlement is at serious risk. Pre-Covid-19 NNDR income represented 27% of the total local government funding, after a second full year of reliefs, valued at over £1bn, funded by UK Government consequentials, if the economic conditions don't exist and grant funding is not allocated then the sector faces potentially massive financial reductions. Further risk arises from the consequences of depressed or falling property valuations from the implementation of the Non Domestic Rates (Scotland) Act 2020, Scotland is moving to a three-year revaluation cycle, the next being April

2023, based on property valuations on 1 April 2022. Trading results in the period to 1 April 2022 is going to be particularly important as the valuation is completed.

1.17.8 In addition, the local government sector has seen increases in demand for services, a change in the need for our services and is left with the consequences of services being closed or reduced, and the switch to critical and response services. This has resulted in emerging issues for our people and our place. Local government must adapt to these changes, it is not able to ignore these changes but financially this causes enormous pressure, especially as national policy and new commitments are added to the range of activities that local government must do.

1.17.9 From the council perspective, the continued loss of income has been particularly challenging as customer behaviour and restrictions from the pandemic having a longer lasting effect than had been expected. This has been particularly relevant with car parking income, venue and events income at risk and planning / building consent monies also predicted to be short of historic levels this year and going forward. Much will depend on changes in customer behaviour. There is also a significantly higher risk associated with the council's arm's length external organisations (ALEOs) if progress is paused, interrupted, or becomes more prolonged. The value of external income they generate to support the size of their organisations may require additional financial commitments from the council, and we have seen a specific guarantee put in place for Aberdeen Performing Arts in financial year 2021/22 (approved at the budget meeting in March 2021).

1.17.10 Expenditure pressures from additional requirements, enhanced guidance and good practice all add to extra facilities costs such as cleaning and protective equipment are obvious pressure points.

1.17.11 To counteract some of the risk, mitigation in place includes additional funding announced at the tail end of 2020/21 that has been carried on the Council Balance Sheet to support the recovery and income loss being experienced by the council. This has been vital in financing the cost of service delivery for 2021/22 and the emerging cost pressures/income loss that is being reported in-year.

1.17.12 The Scottish Government has approved a few fiscal flexibilities, and these are in place to provide a degree of support to the Council. The Council did not use these in 2020/21 to address Covid financial implications therefore they can still be used in the current financial year.. There are three:

1. Capital receipts received in 2020/21 and 2021/22 can be used to meet revenue funding pressures caused by Covid-19 impact, recognising that the value and likelihood of capital receipts may be affected by the pandemic too. The Council has current commitments in relation to voluntary severance and early retirement (VS/ER) and transformation costs that must be first met from any

capital receipt received. Permission to use capital receipts for VS/ER also expires at the end of 2021/22.

2. Credit arrangements, for example PPP/PFI service contracts, applying revised international accounting standards that are due to be implemented in 2021/22 could provide scope to make debt repayments included in these contracts over an extended period (the life of the assets rather than the life of the contract). The original intention was evaluated to have a significant impact on the council's payment profile however the current scheme proposed by the Scottish Government has limitations and this adversely impacts the potential impact on council finances to support medium term recovery. Capital accounting and the detail of this flexibility remains the subject of discussion between the Scottish Government, COSLA and Directors of Finance for local government.
3. Loans fund repayment holiday, deferring the planned repayment of debt principal for 2020/21 or 2021/22 (not both years), creating a saving. This is not a cancellation of the money owed, and the council will then face higher payments in future years to repay the missed payment over a period of not more than 20 years. While the council should avoid this flexibility as it will add revenue pressure to the medium to long-term financial scenarios, it remains an important and potentially crucial flexibility for the current year that could assist in the short-term.

1.17.13 The Cabinet Secretary for Finance, in granting the flexibilities was clear that this must not be seen as an opportunity to maintain or grow reserves. Local authorities must consider these in order, first consider the additional resources available from capital receipts and the change in accounting arrangements for service concession arrangements before taking advantage of a loans fund repayment holiday.

## 1.18 Conclusion:

1.18.1 The council's environment remains extremely complex and multi-dimensional with significant demand and a 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.

1.18.2 Unexpected and sustained changes to the environment add to these resource allocation decisions. There remains much uncertainty and debate about what constitutes an end to the Covid-19 pandemic and when that will be. It is clear that 2021 has been affected as 2020 was, but in a different way. The increased expectation of continuing to deliver business as usual being a key element, with reopening of facilities and services while at the same time implementing public health guidance. Despite the positive and pro-active rollout of vaccines during 2021 the virus has not left us, and the council continues to have to deal with the consequences. These consequences will no doubt vary over time, but it is now likely that the reduction in those will be over several years.

1.18.3 Throughout 2020, we saw a considerable financial injection from government to mitigate the impact of the required public health measures to the virus. This has been extended into 2021/22 in the form of business rate relief for businesses, hardship funding for citizens, increased commitment and financial support to the health and social care services and education. Generic financial support to councils has not been forthcoming to any material extent, and it is therefore unlikely to feature in the short to medium term either, the council should consider the settlement it receives (in December 2021) for 2022/23 the full extent of funding that will be available.

1.18.4 Drawing from Section 3, at best there is a prospect of flat cash for the year ahead, with financial constraint more than likely applying a downward pressure on the core funding received by the council in the years that follow.

1.18.5 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.

1.18.6 Fees and charges (internal and external) are expected to remain a positive contributor to the council although the impact of the pandemic during 2021/22 and the knock-on behavioural changes from our customers will continue to shape large sums of income going forward.

1.18.7 Proposals for a draft 2022/23 budget will be submitted to council's budget meeting in March 2022.

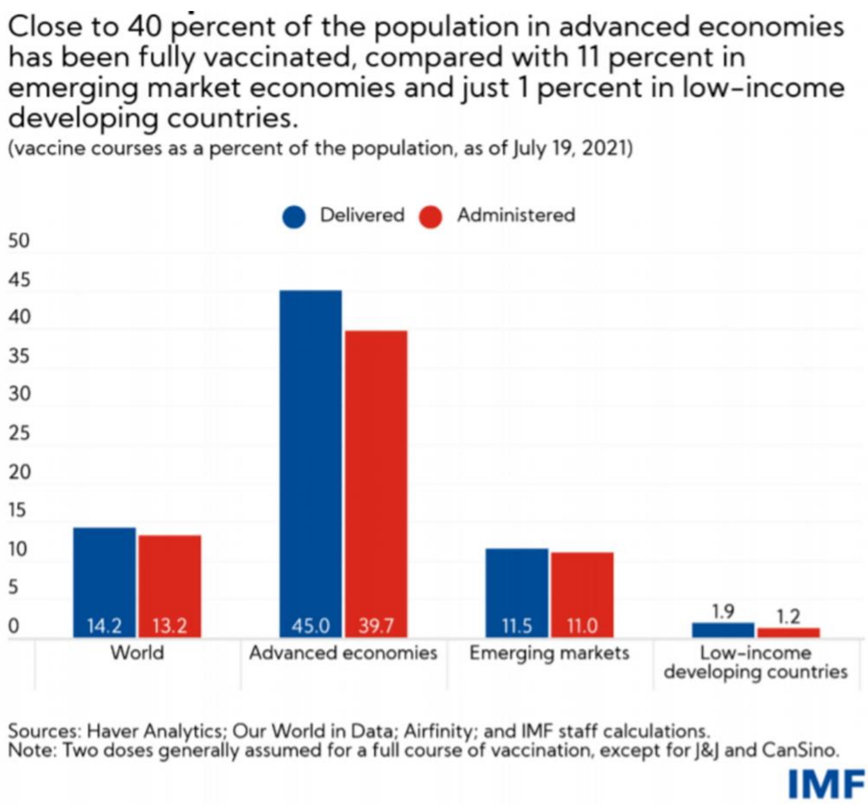
# 2. THE FUNDING CONTEXT BEYOND 2021/22

## 2.1 Economic Outlook

2.1.1 While 2020 will undoubtedly be seen as a year when everything changed it was not meant to be as persistent and dominant moving forward. 2020 saw an unprecedented government intervention in response to the Coronavirus pandemic brought about global changes in how we live our lives and the corresponding consequences on business and the economy.

2.1.2 While there are hopes that most of the economically advanced world (including Western Europe) returns to near normality by the end of this year, even if this optimistic outcome emerges, there will still be significant Covid-19 related worldwide issues to deal with for some time to come. The International Monetary Fund (IMF)[3] provided an illustration of just how far behind some parts of the world are in terms of vaccinations, as at July 2021. In particular, only around 1% of the population have been fully vaccinated in parts of Sub-Saharan Africa, Latin America and South and Southeast Asia and are unlikely to be fully vaccinated until late 2022. This delay not only affects on-going restrictions on travel and trade but also allows greater opportunity for variants to emerge and potentially cause further waves in fully vaccinated countries.

Chart 1: Vaccine Rollout

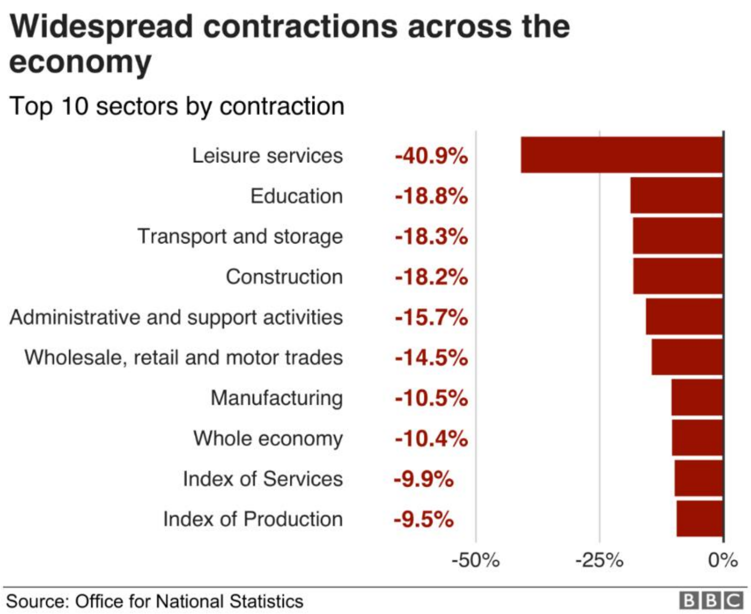



[3] IMF Blog, Drawing further apart, widening gaps in the global economy, 27 July 2021

2.1.3 Data from the Socio-Economic Rescue Plan[4], presented to the council's Urgent Business Committee on 30 June 2020, provided the backdrop for the shape and future of the economy, how it may or may not recover and over what timescale.

2.1.4 This included monthly Gross Domestic Product (GDP) data from March to April 2020 that showed the impact of the pandemic on the economy, headline being a fall in GDP in April 2020 that was the biggest shock in the economy since records began, when UK GDP output fell by 20.4%. Sectors reliant on physical distance restrictions were fundamentally challenged including leisure services, education and transport and as Chart 2, below shows.

Chart 2: Economy

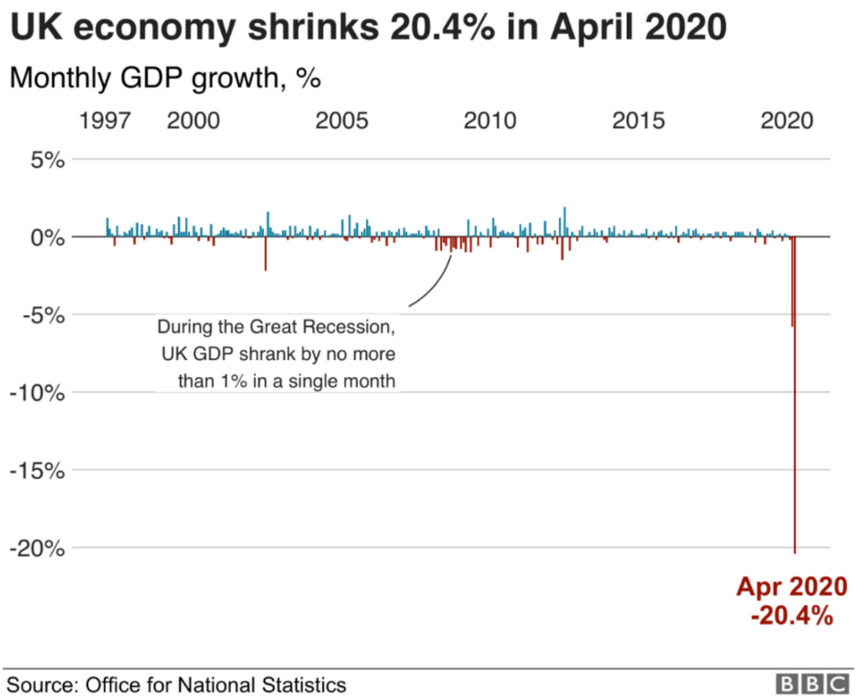



2.1.5 The Office for National Statistics (ONS) described the April falls as "historic" and affected virtually all areas of activity with shutdown restrictions coming into force. They have then continued.

2.1.6 Just how historic this has been is indicated, by comparison, in the last economic shock (2008/09 financial crisis), the largest fall in GDP in any single month was 1%. Illustrated by Chart 3.

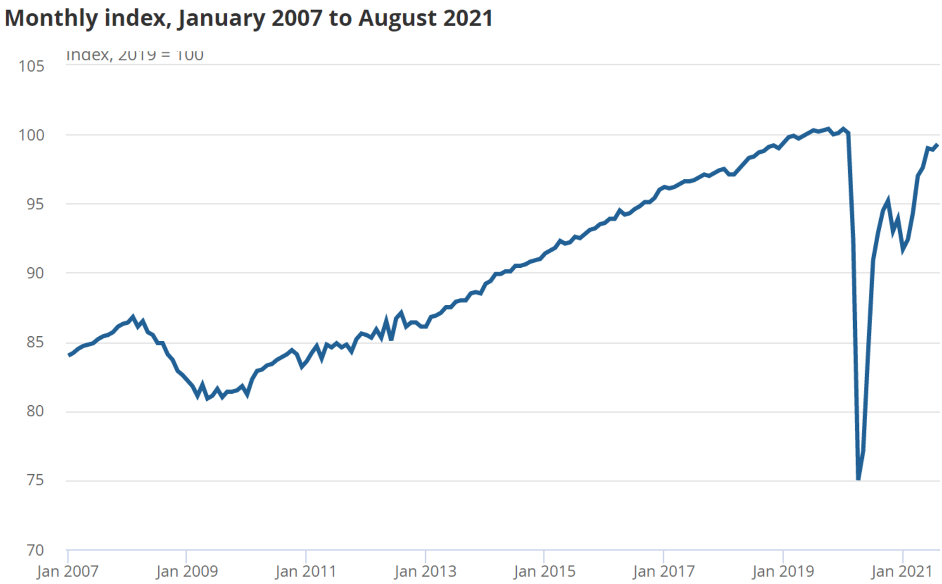
[4] http://councilcommittees.acc.gov.uk/ieListDocuments.aspx?CId=334&MId=7423&Ver=4 Item 11 on agenda.

Chart 3: Economy




2.1.7 Recovery from such a shock is always going to be uncertain and there was much commentary on what would happen. Eighteen months on from the shock the economy has bounced back, with positive signs for key economic indicators such as GDP. The latest update (August 2021) from the Office for National Statistics (ONS) shows an estimate of UK GDP growing by 0.4% in August 2021, and remains 0.8% below pre-pandemic levels, as measured in February 2020. This is shown in Chart 4.

Chart 4:




**Source: Office for National Statistics, GDP monthly estimate**

2.1.8 What does this mean though? The changes need to be compared to the expected economic growth and the impact on government income, that ultimately funds the public sector spending – the UK Budget.

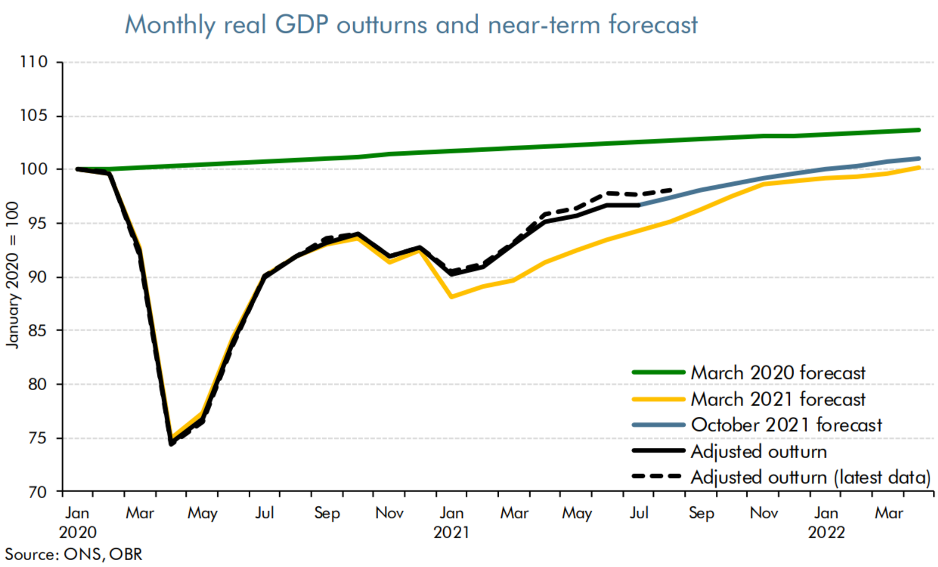
2.1.9 On 27 October 2021 the UK Government published its Spending Review and Budget for 2022/23 – 2024/25, the first multi-year Spending Review since 2015. Alongside this the Office for Budget Responsibility (OBR) published its latest fiscal and economic outlook[5].

2.1.10 This OBR report provides insight into what impact the rebound of the economy means in practical terms for the UK public services that are supported. The OBR state that "The vaccines' high degree of effectiveness, combined with consumers' and businesses' surprising degree of adaptability to public health restrictions, has meant that output this year has recovered faster than we expected in March, boosting tax revenues in the process. The stronger economic recovery has also helped to reduce the fiscal cost of pandemic-related support to below our March forecast. The economy is now expected to grow by 6.5 per cent in 2021."

2.1.11 They comment in their October report "Over the medium term, we have revised up real GDP as we now expect post-pandemic scarring of potential output to be 2 per cent – rather than the 3 per cent we assumed in March. Uncertainty around this judgement remains large, however, with limited evidence as yet regarding how smoothly furloughed workers will be reabsorbed into employment".

2.1.12 The forecast for GDP represents a 6.5% increase in 2021, with pre-pandemic levels reached around the end of the calendar year – this being earlier than previous forecasts of March 2022. See Chart 5.

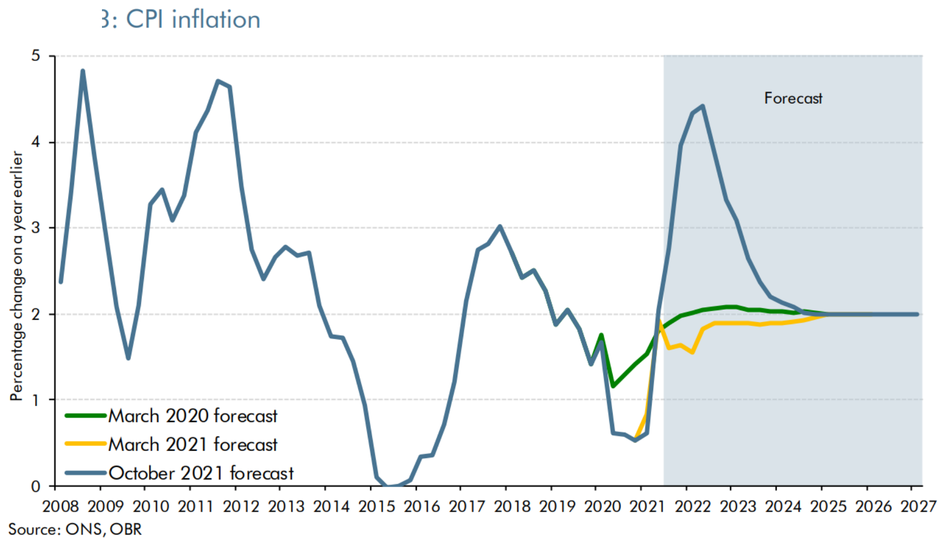
Chart 5: GDP




[5] Office for Budget Responsibility, Economic & Fiscal Outlook, October 2021

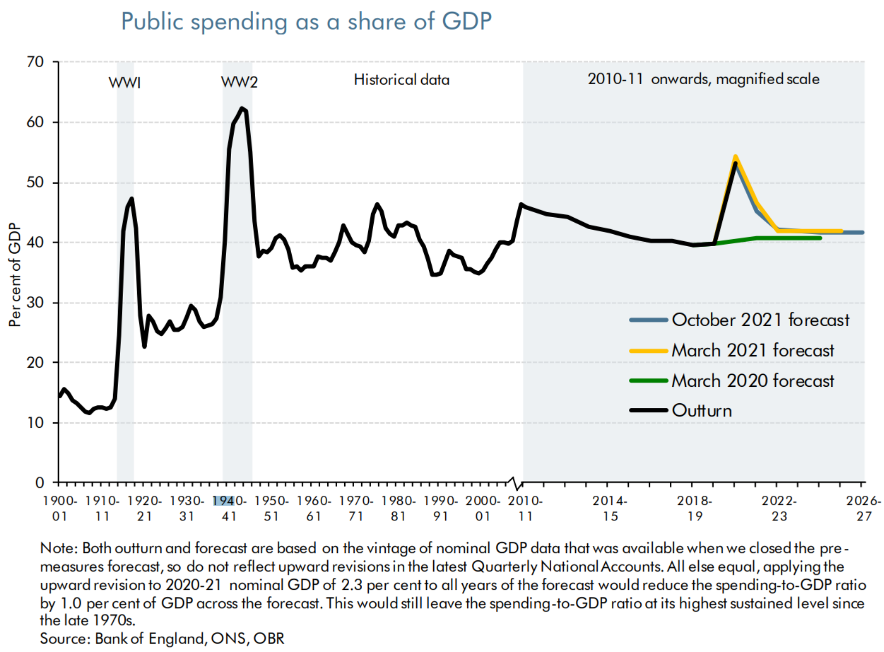
2.1.13 Consumer Prices Index (CPI) is expected to continue to rise, with the forecast that 4.4% will be reached in 2nd quarter of 2022. This is significantly higher than had been forecast by the OBR in March 2021, reflecting higher utility prices in particular. The impact is however expected to be short lived, rather than sustained, at that level, dropping back to the long-term forecast of 2% in 2024. See Chart 6.

Chart 6: CPI




2.1.14 Public spending jumped up by over £230bn in 2020/21 while a fall in GDP resulted in the spending to GDP ratio rising by 13.4% to 53.1%. This is the highest ratio outside World War II and the fastest peacetime increase recorded. The forecast shows a substantial reduction in spending as pandemic related expenditure recedes. The reverse is therefore expected, with increasing GDP and falling spending which impacts positively the spending to GDP ratio in 2022/23. See Chart 7.

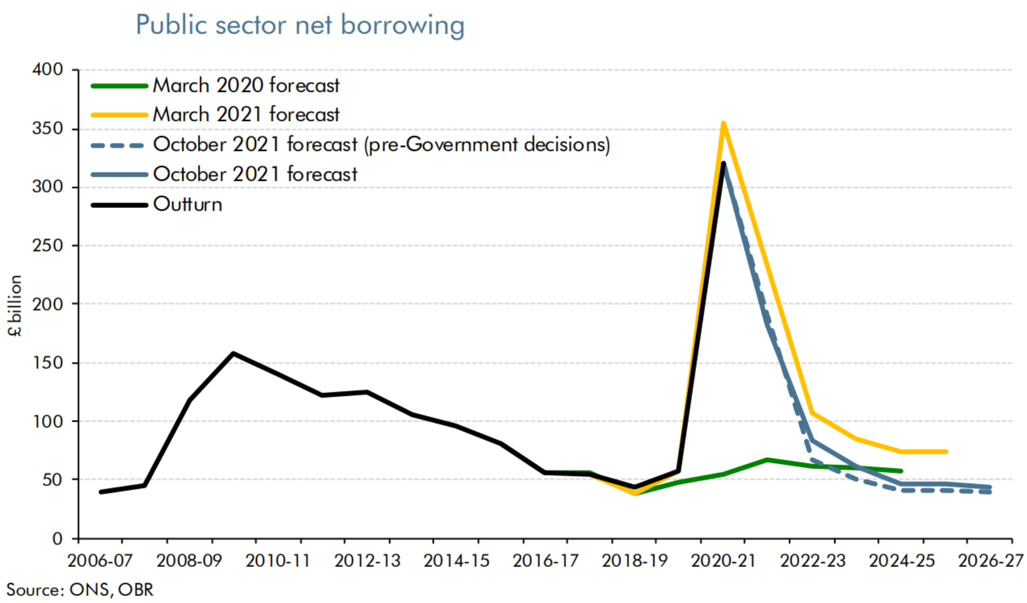
Chart 7: Public Spending



2.1.15 The OBR, it it's July 2020 Financial Sustainability Report[6] referred to the impact on borrowing as "unprecedented peacetime rise in borrowing this year to between 13 and 21 percent of GDP, lifting debt above 100% of GDP in all but the upside scenario."

2.1.16 The impact of this and resultant Public Sector Net Debt level must be seen in the context of recent changes to net taxes, with not only the 1.25% levy for health and social care on employees, employers and the self-employed, but also the corporate and personal tax increases include in the March 2021 Budget. The OBR[7] has concluded that "Taking his March and October Budgets together, the Chancellor has raised taxes by more this year than in any single year since Norman Lamont and Ken Clarke's two 1993 Budgets in the aftermath of Black Wednesday." Despite the added spending burden that is committed over the same period overall borrowing falls back below £100bn in 2022/23 before declining further to around £44bn (or 1.5% of GDP) in the medium term. See Chart 8.

Chart 8: Borrowing




2.1.17 Despite low borrowing rates, the debt will have to be serviced by the UK budget and ultimately repaid, forecasts have been uprated by the OBR reflecting higher inflation in the short term and higher interest rates across their forecasts. With spending priorities demonstrated in the 2021 Budget, the Chancellor provides a platform for new expenditure and commitments to be met from increased spending but for those areas of the public sector that are reliant on the grant funding to deliver universal services that are unprotected, such as local government, there will be challenges ahead to keep pace with rising inflation and rising demand. Therefore, the Council

[6] [Office for Budget Responsibility, Fiscal Sustainability, July 2020]()

[7] [Office for Budget Responsibility, Economic & Fiscal Outlook, October 2021]()

needs to be prepared to respond and pre-empt the likely scenarios that will arise for the funding of public services going forward, and over the medium to long term. The consequences of the pandemic and the uncertain future will be evident for years to come.

## 2.2 Other Significant External Risks

2.2.1 *Climate Change* – The OBR in its Economic and Fiscal Outlook, October 2021[8], says that "The fiscal risks presented by climate change include both 'physical risks' stemming from global warming itself, as well as 'transition risks' relating to the shift towards a low-carbon economy. Since our report in July, the physical risks are largely unchanged and subject to the outcome of the COP26 negotiations but will remain highly uncertain and particularly difficult to forecast and quantify even after that." The transition risks become clearer from the 2021 Spending Review, with what they describe as "…significant net zero public investment funded within the 2021 Spending Review envelope. Our fuel duty forecast also reflects faster than expected take-up of electric vehicles reducing revenues. But the largest risks from the transition to net zero remain beyond our forecast horizon. And they continue to be dwarfed by the potentially catastrophic risks that unmitigated climate change would bring."

2.2.2 *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 nature of the agreement with the EU and subsequent arrangements put in place, as well as trade deals with non-EU countries, are expected to impact over time on a range of areas such as trade, skills, and EU funding.

2.2.3 *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.

2.2.4 *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;

[8] Office for Budget Responsibility, Economic & Fiscal Outlook, October 2021

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.

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

## 2.3 The Funding Outlook – UK

2.3.1 Commentary[9] from the Institute of Fiscal Studies (IFS) on the UK Autumn Budget[10] and Spending Review 2021 (27 October 2021) noted that English local government, despite a real increase in spending power, will still struggle, with limits on Council Tax increases, grants being frozen from 2023/24 and demands keep increasing particularly in the social care sector. Critically it will be the consequentials of the UK Budget, flowing into through the Barnett Formula and the decisions of Scottish Government that will have the greatest impact on Scottish local government sector.

2.3.2 The 2021/22 UK Budget, in March 2021, amounted to £1,053bn. Funding for the budget relies on employment and indirect taxes, for example VAT, therefore the importance of employment levels and individuals having disposable income available to them cannot be understated. The consequence of the economic position described in the previous section made the impact on public sector spending all too stark. UK revenues for 2021/22 were budgeted to be £820bn, a gap of £233bn which will have to be borrowed.

2.3.3 Borrowing plugs the gap for the short-term, but as discussed above the situation is unsustainable and the repayment of the net debt must be achieved to provide market stability and maintain strong credit credentials on the global stage.

2.3.4 As referenced earlier the significant spending that supported and continues today to support the pandemic response and recovery will not last sustainably. To address the imbalance spending will have to fall and/or taxes will rise. The Chancellors 2021 Budget and Spending Review, delivered on 27 October 2021 emphasised both, with spending supported by increased taxes and commitments to the likes of health and social care from a 1.25% levy on people and businesses being incorporated in the 3-year budget.

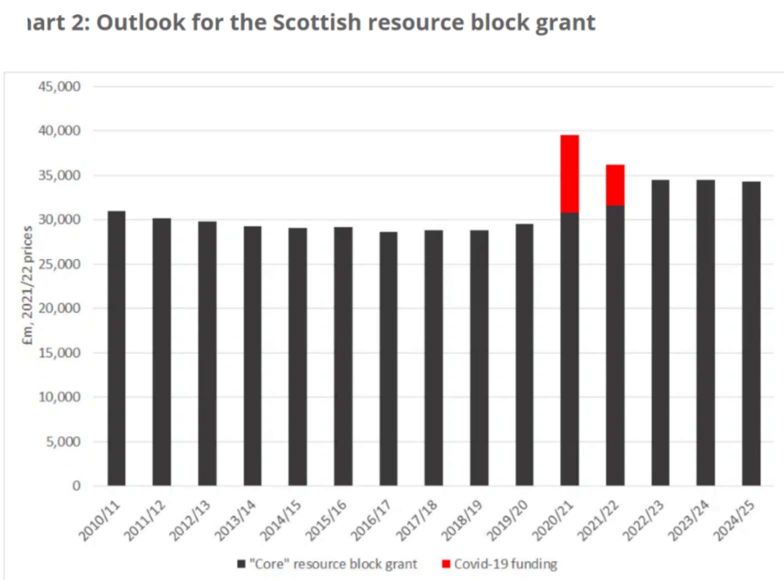
[9] Institute for Fiscal Studies, Commentary on Autumn Budget and Spending Review 2021

[10] UK Government, Autumn Budget and Spending Review 2021

2.3.5 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. The 2021 UK Autumn Budget and Spending Review[11] maintained a strong focus on 'Levelling Up' and the desire and mechanisms through which funding can be distributed from UK Government to all parts of the United Kingdom. This agenda has already resulted in opportunities to bid for capital-based funding, and this is described in more detail in Section 4. It is expected that a similar approach to the distribution of the Shared Prosperity Fund will apply, so the Council must be actively tracking the detail on the process to ensure it is in the best place to access the funding when it is released.

2.3.6 From the Block Grant perspective, the Chancellor set out, in his budget, the funding for the devolved administrations, in the context of improved economic outlook, from a quicker than expected recovery this year, and longer-term impact 'scarring' is expected to have less of a permanent impact. This means that the underlying block grant for Scotland is going to be higher in 2022/23 to 2024/25 than had been expected. This is front loaded so next year will see a large increase while the following two years will be relatively flat. The Fraser of Allander Institute (FAI) summarised this in their paper[12] following the UK Autumn Budget 2021, in graphical terms it is shown in Chart 9.

Chart 9: Scottish Block Grant, Source FAI




[11] UK Government, Autumn Budget and Spending Review 2021

[12] Fraser of Allander Institute, UK Autumn Budget 2021, 27 October 2021

2.3.7 The Scottish Government will set out spending plans for 2022/23 on 9 December 2021 only then will be know the effect of the larger block grant on the parts of the devolved public sector, including local government.

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

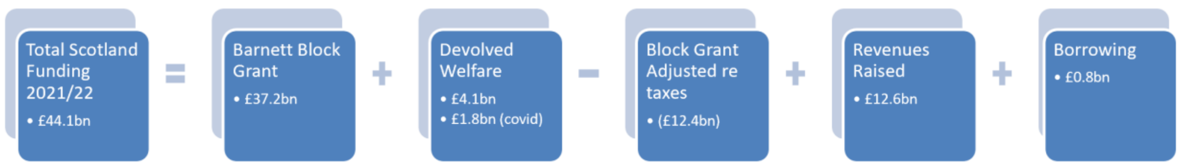
2.4.1 The primary source of funding for the delivery of Council Services is the Scottish Government through the allocation of general revenue and capital grants, and the distribution of national non-domestic rates income. In Scotland local government funding accounts for almost a quarter of the total budget, in 2021/22 approximately £11.7 billion.

2.4.2 With approximately three quarters of the Council's net revenue funding being received in this way 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. The Framework is currently under review, with additional flexibility being sought by the Scottish Government. In turn COSLA are seeking to put in place a Fiscal Framework between Scottish Government and Scottish Local Government.

2.4.4 For financial year 2021/22 Scotland's Budget, excluding Annually Managed Expenditure (AME)[13], amounted to £44.1 billion, when set in March 2021. This is the element of the budget the Scottish Parliament can make decisions about.

Diagram 1: Original Scotland Budget 2020/21, excluding AME




2.4.5 The 2021/22 budget reflects the changing picture of devolved powers, including devolved social security payments and farm payments, previously funded by the EU.

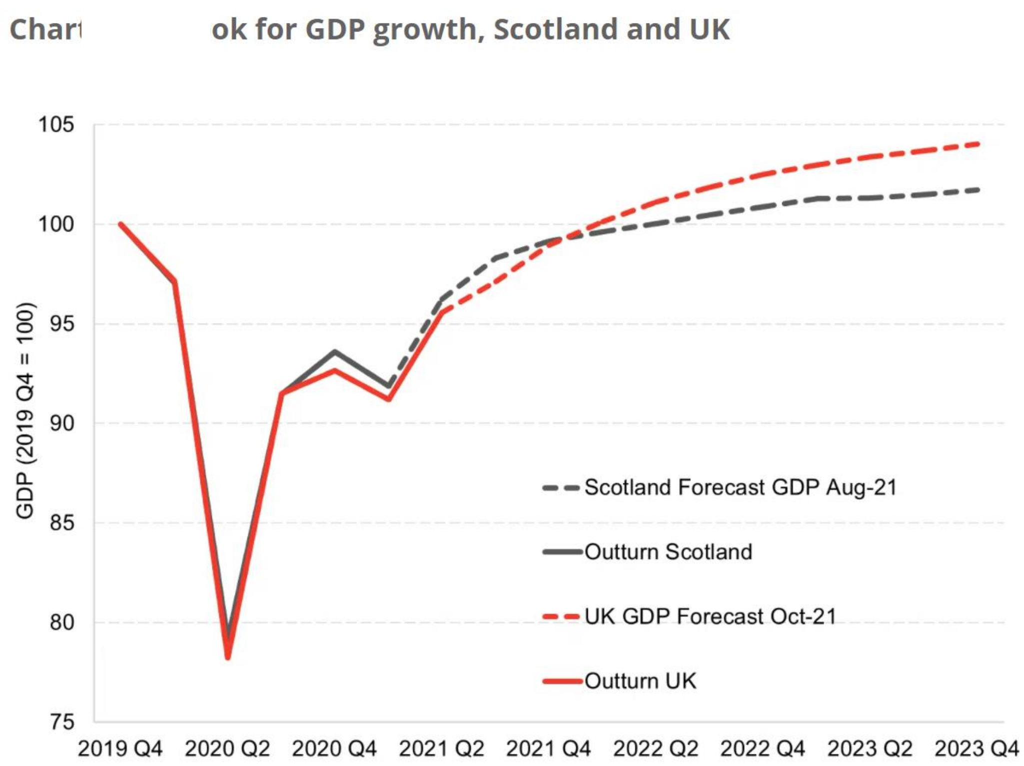
2.4.6 Notable is the adjustment to the block grant for the devolved tax raising powers that now sit with the Scottish Parliament. The size of the Scottish Budget is therefore directly affected by economic performance, through taxation revenues, in Scotland compared to the rest of the UK. In 2021/22 there is a shortfall in the value of the

[13] 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 £9 billion per annum.

adjustment, i.e. more has been taken out of the budget by the Fiscal Framework adjustment calculation than the Scottish Government can put back in. Diverging economic performance could place added pressure on the Scottish Budget in future years.

2.4.7 The FAI[14] shows how economic performance might differ between Scotland and the UK in their budget commentary, October 2021 (see Chart 10). It shows the risk that exists and may emerge as future year adjustments to the overall Scottish Budget. Local government sector funding is naturally a sub-set of the total budget and will be affected by many factors, not just the overall quantum. This includes prioritisation against other public services, political commitments and demand.

Chart 10: Scotland GDP, Source FAI



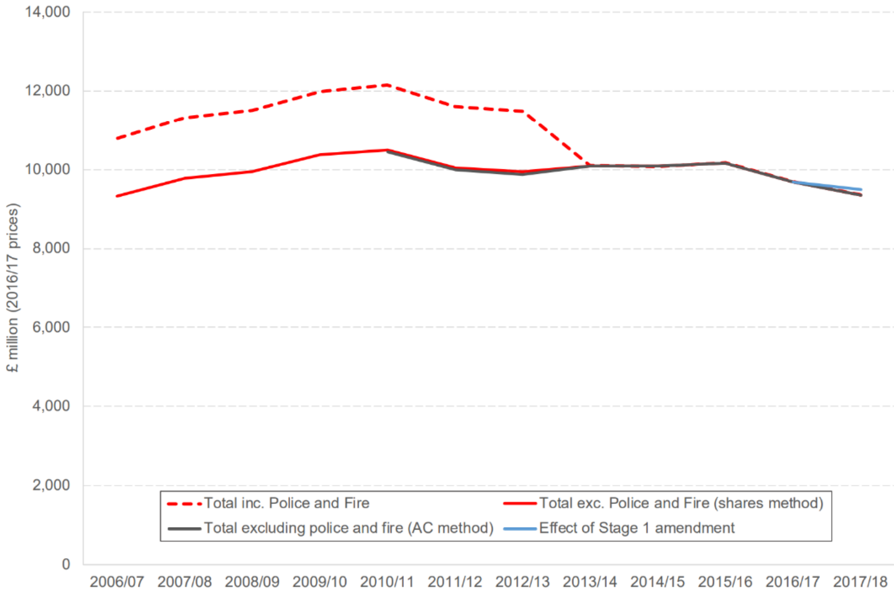

2.4.8 The picture of local government funding, following the peak year of 2010/11 was captured in a report[15] by the Fraser of Allander Institute in 2017, which unravelled the complexity of measuring the impact on local government services as known today. That complexity refers to the removal of Police and Fire Services in 2013/14. They calculated that between 2010/11 and 2017/18, based on the Accounts Commission

[14] Fraser of Allander Institute, UK Autumn Budget 2021, 27 October 2021

[15] Fiscal issues facing local government in Scotland, Fraser of Allander, March 2017

methodology the real terms decline for local government was 9.3%, around £1bn lower than in 2010/11.

Chart 11: Total revenue funding to local government (including Non-Domestic Rates and specific grants), 2006/07 – 2017/18

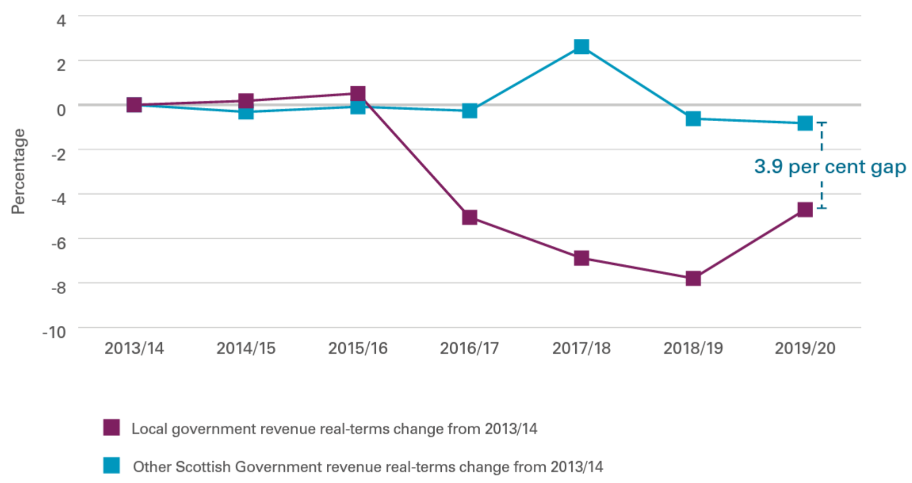



*Source: Local Government Finance Circulars, FAI analysis*

2.4.9 The Accounts Commission, in their Local Government in Scotland Financial Overview 2019/20[16] report, described the difference in funding between the local government sector and the other areas of the Scottish public sector. Their report described the real terms change in funding since 2013/14 to 2019/20, local government seeing a 4.7% reduction in real terms fall in funding, while the Scottish budget had reduced by to 0.8%. It does present a change from the reduction that had existed the year before, where 7.6% compared to 0.4% reduction elsewhere. This is presented in Chart 12. Moving forward these comparisons will be more complicated due to all the Covid-19 pandemic support funding that has been included in the 2020/21 settlement.

[16] Accounts Commission, published January 2021

Chart 12:

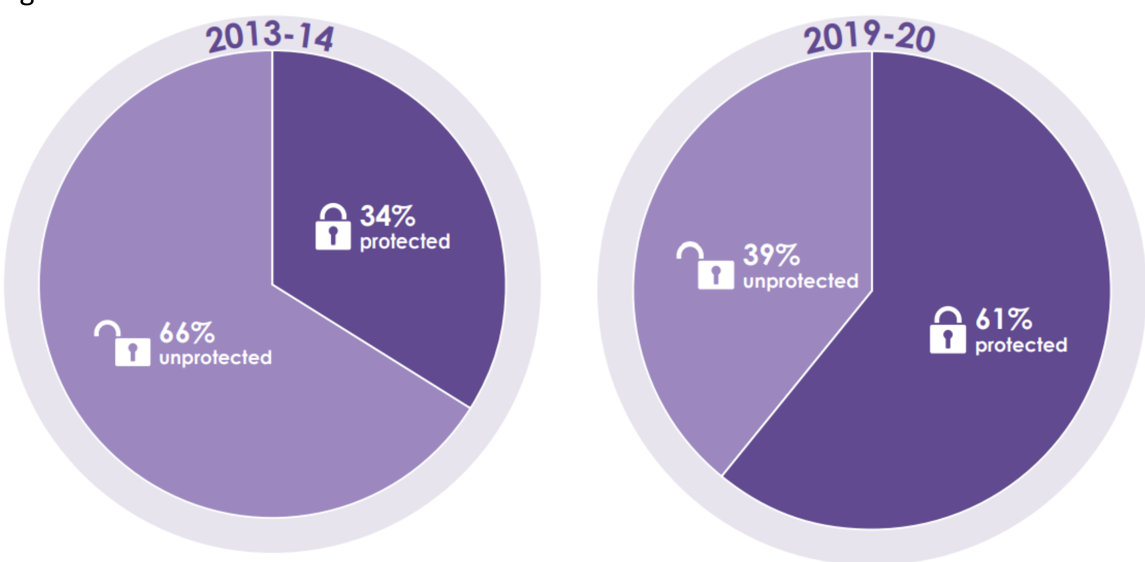



Source: Finance Circulars 04/2020 and Scottish Government budget documents (June 2020 ONS deflators)

2.4.10 While it is acknowledged that in 2020/21 funding in total has reversed this to a certain extent, it is clear from the data that over the period 2013/14 to 2020/21 funding for local government has in in real terms reduced by 3.3%.

2.4.11 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 their “Invest in Essential Services” information, “Ring-fencing, national policy initiatives and protections in education, health and social care continue to grow creating increasing protection.”

Diagram 2:




Source: COSLA, Invest in Essential Services

2.4.12 The Accounts Commission said in December 2019[17] "An increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities." This point was reiterated in June 2020[18], when they referred to "Councils have less flexibility in how they use funding. Funding dedicated to national policy initiatives increased from £1 billion in 2019/20 to £1.5 billion in 2020/21, equating to 14.1 per cent of council funding from the Scottish Government."

### 2.4.13 Conclusion: Scottish Government Funding

I. The allocation of any reduction by Scottish Government across the Scottish public sector portfolios is unknown so for scenario planning the following assumptions have been made.

Table 1:

| Upside Scenario | Central Scenario | Downside Scenario |
|---|---|---|
| 2022/23 – flat cash settlement for underlying duties and obligations, with a 0.5% cash increase annually thereafter. Additional funding assumed for additional expenditure commitments. | 2022/23 - flat cash settlement for underlying duties and obligations with additional funding assumed for additional expenditure commitments through policy changes, followed by 1% cash reduction annually | A continuation of the real terms reduction experienced over period 2013/14 to 2019/20, with average over 7 years of 2.6%. |

II. The level of "protection" that Scottish Government applies to its political priorities delivered by local government is also quantified.

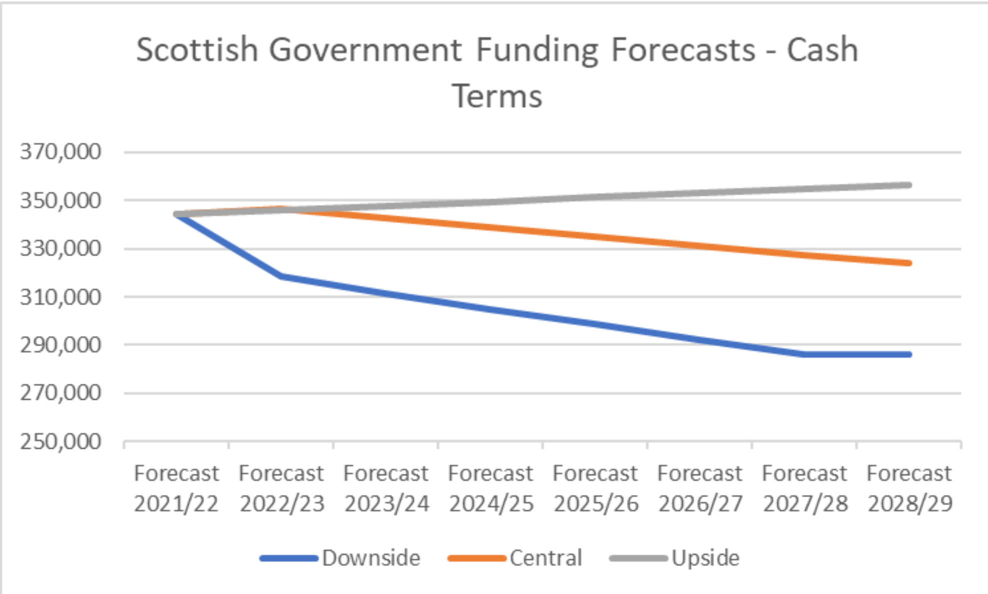
[17] Accounts Commission, Local Government in Scotland Financial Overview 2018/19, December 2019

[18] Accounts Commission, Local Government in Scotland Overview 2020, June 2020

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, 14.1% of resources directed nationally. | Greater control directed nationally to deliver national priorities, raising protection to over 20% of local government resources. |

Chart 13: Scottish Government Grant Scenarios




III. From an approved 2021/22 budget level of government funding of £344m, the upside and central position looks at scenarios of a small increase in funding £2m to £346m in 2022/23, before diverging to upside seeing an increase in funding to £356m by 2027/28, while the central scenario reduces income for the Council in cash terms to £323m in the same time period. On the downside, and with greater likelihood the value of core funding could be as low as £286m, a funding range of £70m.

2.4.14 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.

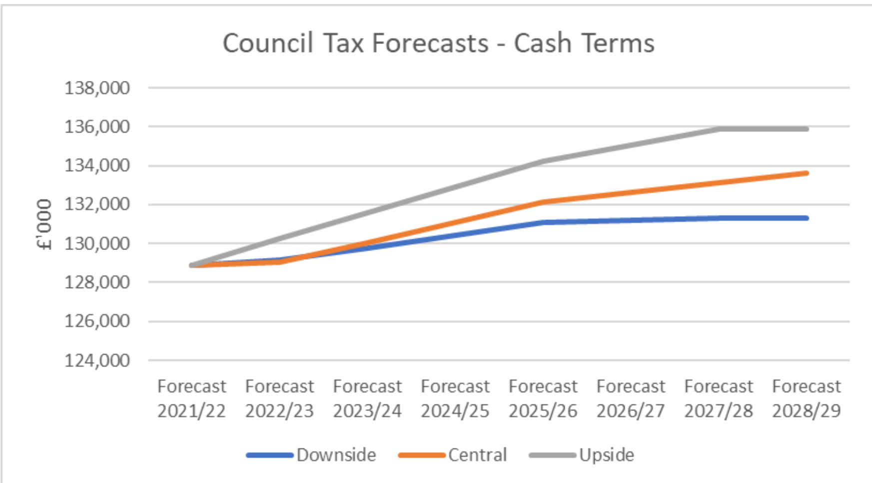
2.4.15 Exercising discretion over these fiscal levers is, again, not straightforward. The local government financial settlement puts restrictions on the most significant fiscal lever local authorities have, setting the Council Tax. The cap on Council Tax increases was introduced in 2017/18, following 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).

2.4.16 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 increase, but for 2022/23 the effect of the pandemic cannot be ignored and there has been a shift to lower levels of collection with more people claiming Council Tax Reduction, which means that income gained by increasing the rate / or government grant is offset by a reduction in income collectable.

2.4.17 It is worthy of note that the Scottish Government's Programme for Government[19], published earlier this year commits "…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." The Council will want to participate to ensure that developments are appropriate financially for the Council and locally for our citizens.

2.4.18 **Conclusion: Council Tax**

Chart 14: Council Tax Scenarios




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

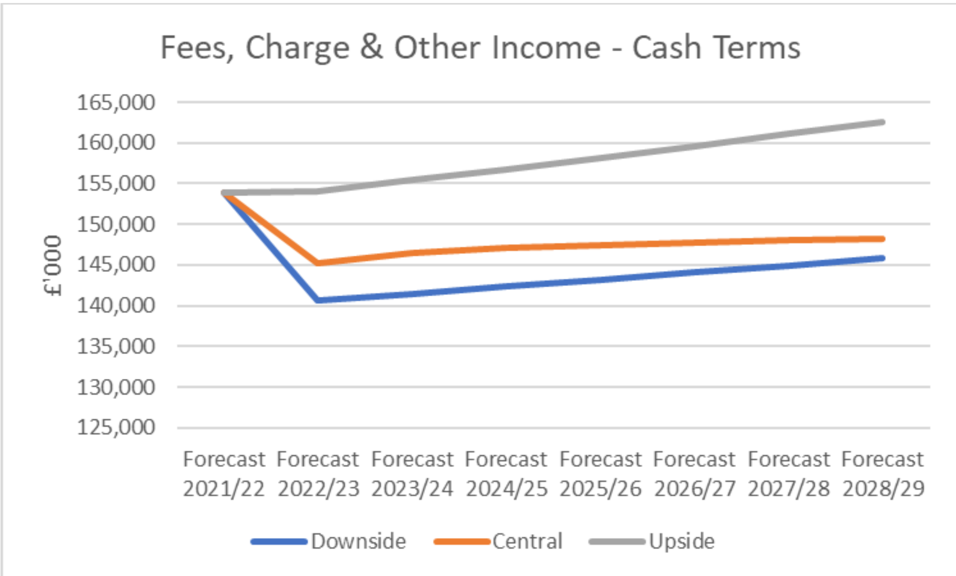
2.4.19 Fees and charges are an important source of funding for local authority services, and some provide a positive inflow of cash to support the overall revenue budget, a common example being car parking income. Other external income raised through fees and charges will often recover a proportion of 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.

2.4.20 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.

2.4.21 Income has shown, through the Council's financial performance reports, this year that income continues to be depressed and as such the income projection have been revised downwards for 2022/23. This creates an adverse impact on next year, but provides a lower base for fees, charges and other income to be built. It is anticipated that with more data on the behaviour of our customers and our cost these forecasts can be reversed in future years. For now, the forecasts are prudent.

**Conclusion: Fees and Charges**

Chart 15: Fees and Charges Scenarios




2.4.22 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. In addition, local authorities have sought to have the powers to collect a transient visitor levy.

2.4.23 While there is a mixed picture of legislation already in place to support these levies, further regulation and statutory instruments are required to provide local authorities the powers to implement them and as was seen at the start of the coronavirus pandemic the Scottish Government announced (March 2020) a delay in the transient visitor levy legislation. It is going to be some time before local authorities can draw any benefit from such fiscal freedom.

### 2.4.24 Conclusion: Discretionary Powers

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? |
|---|---|---|---|
| Transient Visitor Levy | No. Consultation on Levy completed December 2019. | No. | Unclear. Scottish Government announced in March 2020 that work to introduce a TVL had been halted by COVID-19. It is not clear if this is a temporary halt or a permanent halt. |
| Workplace Parking Levy | Yes. Transport (Scotland) Act 2019 | No. Part 7 of the Transport (Scotland) Act 2019 has not yet been brought into force. | Unclear. Unlikely to be until after the COVID-19 situation is resolved - meaning 2022/23 financial year at earliest. |
| 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. Unlikely to be progressed until after COVID-19 situation is resolved meaning 2022/23 financial year.<br><br>Planning (Scotland) Act 2019 provides that the power to introduce a levy will lapse by 25 July 2026. |

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.

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 gap must be addressed for each individual year, but also sustainably for the future.

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)

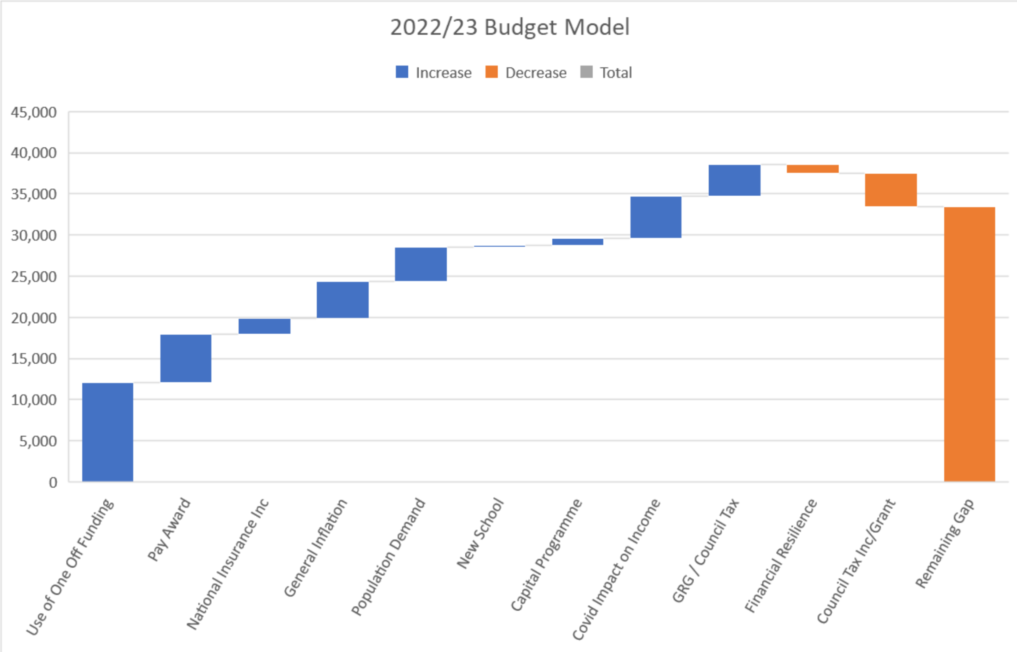
| Source | Description | Upside Scenario | Central Scenario | Downside Scenario |
|---|---|---|---|---|
| Scottish Government Revenue Grant | Combined grant income from General Revenue Grant and Non-Domestic Rates. | Year 1 0%<br>Year 2-7 0.5% | Year 1 0%<br>Year 2-7 -1% | Year 1 -3%<br>Year 2-7 -2% |
| 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. It is expected that Council Tax income will be increased in 2022/23 based on either a grant to freeze Council Tax at current levels or to increase the rate by 3.3%. | | | |
| Council Tax | Tax base increase from additional chargeable properties. | Year 1-7 total 6,969 properties | Year 1-7 total 5,283 properties | Year 1-7 total 2,700 properties |
| Fees, Charges and Other Income | External income raised from customers. Approval for rate increases is a council decision, therefore rates charged in 2021/22 have continued to be applied to each scenario. The budget decision will provide a solution to address the scenarios. | | | |
| Fees, Charges and Other Income | External income changes due to Covid-19 impact | Year 1 £1.9m loss & return to current by year 3 | Year 1 £6.2 loss & return to current by year 5 | Year 1 £9.2m loss & return to current not achieved by year 7 |
| One-off funding streams | 2021/22 Budget made use of Balance Sheet resources and one-off funding streams these must be replaced as they are non-recurring. Assumption for 2022/23 only, £12.1m | | | |

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

| **Source** | **Description** | **Upside Scenario** | **Central Scenario** | **Downside Scenario** |
|---|---|---|---|---|
| Inflation | Pay | Year 1-7 1% annually | Year 1 2%;<br>Year 2-7 2.58% avg.<br>Year 2-7 3% avg. (Teachers) | Year 1-3 3%;<br>Year 4-7 2.5%<br>Year 4-7 3% (Teachers) |
| Government Policy | National Insurance | Year 1-7 9% | Year 1-7 9% | Year 1-7 9% |
| Inflation | Price – including contracts, grants and ALEOs | Between 0% and 1.25% | Between 0% and 2.5% | Between 1.25% and 3% |
| Inflation | Utilities, including Gas, Electric, Heating Oil, Water | Gas -1%<br>Electricity 2.5% | Gas 0%<br>Electricity 5.7% | Gas 5%<br>Electricity 9% |
| Population Demand | Children, schools impact | Total Year 1-7 £8.1m increase | | |
| Covid-19 Demand | Council Tax Bad Debt | Year 1 £1.7m increase & return to current by year 3 | Year 1 £1.7m increase & return to current by year 4 | Year 1 £2.6m increase & return to current by year 6 |
| Covid-19 Demand | Increased Contingencies | Year 1 £1m<br>Year 2 £0.5m<br>Year 3-7 £0 | Year 1 £1m<br>Year 2 £0.5m<br>Year 3-7 £0 | Year 1 £1m<br>Year 2 £0.5m<br>Year 3-7 £0 |
| Capital Investment Demand | Capital Financing | Year 1 2%<br>Year 2 -3%<br>Year 3-7 -4% | Year 1 2%<br>Year 2 16.4%<br>Year 3-4 4%<br>Year 5-7 -1% avg. | Year 1 10%<br>Year 2 10%<br>Year 3-7 2% |

3.1.3 The forecast position, central scenario, can be represented by the graph in Chart 16.

Chart 16: ACC General Fund 2022/23



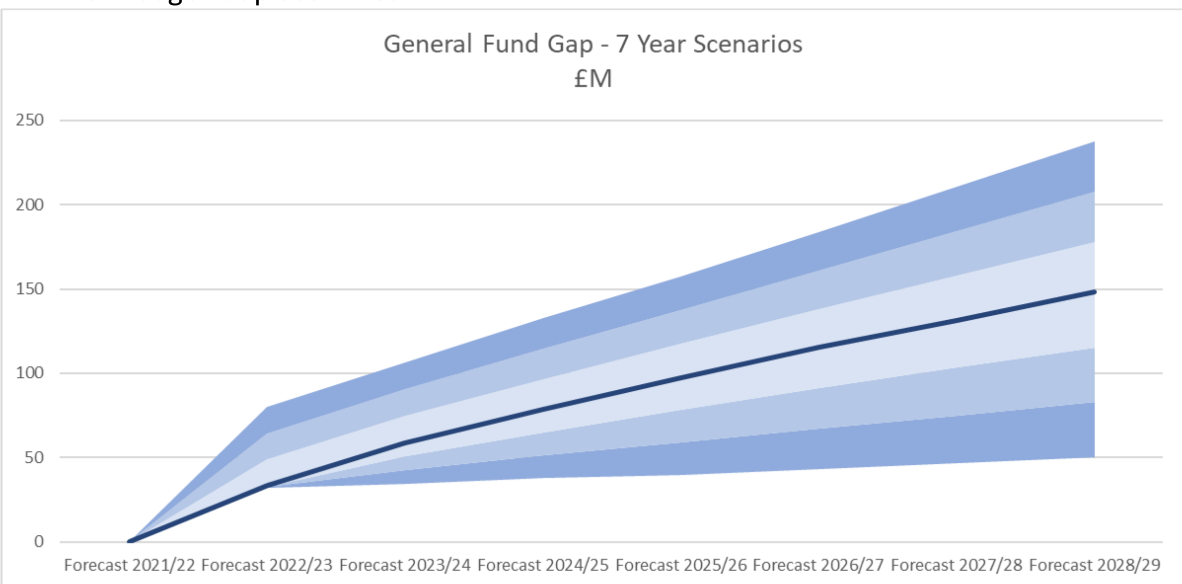

3.1.4 The impact of income and expenditure assumptions is shown in the table below

Table 6: Budget Gap Scenarios

| **General Fund Budget Gap** | **Budget 2021/22** | **Forecast 2022/23** | **Forecast 2023/24** | **Forecast 2024/25** | **Forecast 2025/26** | **Forecast 2026/27** | **Forecast 2027/28** | **Forecast 2028/29** |
|---|---|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Upside Scenario | 0 | 32 | 34 | 38 | 40 | 43 | 47 | 50 |
| Central Scenario | 0 | 33 | 59 | 78 | 98 | 115 | 132 | 148 |
| Downside Scenario | 0 | 80 | 106 | 132 | 157 | 184 | 211 | 238 |

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

Chart 15: Budget Gap Scenarios



3.1.6 The scenario plans reveal a range for 2021/22 of between £32m and £80m, with a central scenario that is towards the upside set of assumptions, this is because of a close alignment in these scenarios of income levels, and of the lack of opportunity for extra income to be generated by the council in the current climate.

# 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 Chancellor set out in his 2021 Autumn Budget and Spending Review a budget 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 has resulted in the announcement by the Chancellor of the full £20m from the Levelling Up Fund, for the Aberdeen Market project.

4.1.4 It is particularly important that as the Levelling Up Fund is not a single source of funding, but a Fund that will seek bids in the future, the Council remains agile and aware of the opportunities that exist in accessing the valuable funding stream. Other Funds many also emerge with the expectation that the UK Shared Prosperity Fund will operate in a similar way, specifically allocating and distributing funding outside the Scottish block grant directly to projects in Scotland and other devolved nations. The detail of the quantum and process for applying for this funding has yet to be announced.

4.1.5 The Scottish Government published its Infrastructure Investment Plan for Scotland 2021/22 to 2025/26[20] 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."

4.1.6 Investment in infrastructure can provide stimulus and economic growth, evidenced through increases in GDP, therefore having this national picture is important to

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

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[21] 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."

4.1.7 The eyes of the world are on Scotland as COP26[22] takes place in Glasgow this month. Clear commentary from both UK and Scottish Governments demonstrate 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."

4.1.8 With Council ambition laid out 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.

4.1.9 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.

4.1.10 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.

4.1.11 This is coupled with the already approved Strategic Investment Plan[23] 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.

4.1.12 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 approved in March 2021, took forward several initiatives, including investment in electric and hydrogen vehicles, charging infrastructure and hydrogen hub.

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

[22] https://ukcop26.org/

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

4.1.13 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.

4.1.14 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.

4.1.15 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.

4.1.16 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).

4.1.17 In line with this, the vision for the city as agreed at the May 2020 Urgent Business Committee is: "We want Aberdeen to become a climate positive city at the same time, helping to lead the world on the rapid shift to a net zero future by leveraging its unique assets and capabilities to support the global energy transition".

4.1.18 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.

4.1.19 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

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

4.1.21 The current Capital Programme for the General Fund was approved in March 2021 with investment of £557m in city projects over the five years to 2025/26. Details of the programme are shown in Appendix 2, and include an additional £150m over the five years to ensure the Council transforms the City Centre and the Beach area.

4.1.22 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.

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

5.1 2021/22 - 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 Policy Statement;
- 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.

5.2 The monitoring of the current year has been carried out in line with the Council's quarterly financial reporting and while cost pressures arising from the pandemic continue to place the Council in a challenging position, from both income receivable and expenditure commitments, the Council's financial resilience is sufficient to be confident that the budget will be balanced using earmarked reserves. No adjustments have been made to the allocation of resources, except for commitments made to new national policy announcements for which the Council is receiving additional funding.

5.2 2022/23 and beyond - 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

This analysis informs ***planning*** of future service designs which, at a detailed level, set:

- Services to be commissioned and delivered
- Services to be changed through recommissioning
- Services to be decommissioned
- Eligibility criteria for those services
- Customer Access/ Channels/ Standards

- Income levels
- Organisation structure and workforce
- Location / Assets
- Suppliers and contracts
- Digital / Data systems
- The cost of services
- Significant risks associated with delivery of the service

5.3 Future Transformation Priorities - The Council's Transformation Portfolio has, over the last 3 years, supported the implementation of the Target Operating Model (TOM) by developing the necessary organisational capabilities. This has fundamentally changed the organisation through, amongst other things, an aligned strategy and policy framework; the joint outcome based commissioning approach; a systematic approach to identifying and managing demand; a revised Scheme of Governance to facilitate the strategic use of resources through commissioning; a new organisational structure; multiple digital achievements including increasing efficiency through online customer service and increasing our digital capability; guiding principles and behaviours co-created with staff; a capability framework and workforce plan.

5.4 Specific council services have developed new operating models in line with the overall council TOM, including children's social work and education for which we have established a three-year direction of travel to both address emerging risks and focus on long term sustainability. This approach is ensuring that on-going budget reductions are managed within a context of promoting quality and effective delivery of the Council Delivery Plan. Themes for this direction of travel are:

- Redirecting resource into primary prevention and early intervention to transform how we manage demand
- Use of digital technology to reduce headcount and improve the quality of the curriculum
- Transforming the Senior Phase to improve quality and efficiency
- Partnership integration to improve wellbeing and attainment in the first 1000 days and beyond

5.5 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.

5.6 Looking forward and within the context described by this medium-term financial strategy, the Transformation Portfolio has been reviewed during 2021 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 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.

5.7 <u>Linked Strategies</u> - The Strategic Commissioning Committee agreed in November 2019 a revised Strategy Framework[24] 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 MTFS is a key plan which provides context and sets principles which must be reflected within the council's strategies. The council's agreed strategies are shown at Appendix 1.

[24] Strategy Framework, SCC, November 2019

# 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 These risks are predicted to continue to increase.

## Reserves Policy[25]

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.

[25] Council Reserves Policy, March 2021, Report number 4, Appendix 5

- 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 Accounts for 2020/21 show the balance of General Fund usable reserves of £72m (including earmarked reserves of £59m).

6.8 In setting the 2021/22 General Fund budget the Council determined that it would use £6.5m of earmarked reserves from the general sums held to support the recovery from the pandemic. An explanation of each earmarked reserve and values as at 31 March 2021 can be found in the council's audited annual accounts for 2020/21.

6.9 For financial resilience the council may need to 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**

6.14 For Local Authorities generally, the measure of financial resilience has been to consider 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.[26]

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 set out here is designed to be the first stage of addressing the instruction to the Chief Officer – Finance from the City Growth and Resources Committee to further develop the approach to financial resilience.

[26] 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.

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 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 Financial resilience of the Council needs to be looked 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 the Medium Term Financial 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 incorporated 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 **Framework**

6.32 It is proposed to expand and redefine the components of financial resilience originally included in the MTFS. That expansion results in the following framework:

- 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)
  - 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 will be populated based on audited information up to 31 March 2021. The refresh of the MTFS provides the first analysis of the framework.

6.34 The proposal is to obtain relevant information to measure the Council finances using the Financial Statements and additional information obtained from the audited Annual Accounts. This will provide 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.

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** | **2018/19** | **2019/20** | **2020/21** | |
|---|---|---|---|---|
| **Availability of Resources** | | | | |
| Usable Reserves / Net Revenue inc. HRA (%) | 11.0% | 10.8% | 16.4% | |
| Usable Reserves - GF / Net Revenue (%) | 8.0% | 7.7% | 14.2% | |
| Usable Reserves - HRA / HRA Revenue (%) | 12.8% | 12.7% | 14.3% | |
| Reserves Sustainability Measure | 4.3 | 6.6 | 100.0 | |
| Level of Usable Reserves | 11.0% | 10.8% | 16.4% | |
| Change in Usable Reserves | -41.3% | -31.4% | 50.7% | |
| Council Tax Requirement / Net Revenue (%) | 26.6% | 26.9% | 24.5% | |
| Unallocated Reserves | 2.4% | 2.6% | 2.5% | |
| Earmarked Reserves | 5.6% | 5.1% | 11.7% | |
| Change in Unallocated Reserves | -8.5% | 5.4% | 10.0% | |
| Change in HRA Reserves | 13.9% | 13.3% | 24.6% | |
| Current Ratio | 69.7% | 77.2% | 81.6% | |
| Working Capital | £0k | £0k | £0k | |
| **Creation of Resources & Gearing** | | | | |
| Net Worth / Net Direct & Indirect Debt (%) | 103.2% | 88.1% | 101.8% | |
| Net Direct & Indirect Debt / Net Revenue inc. HRA (%) | 233.6% | 247.6% | 228.9% | |
| Capital Financing Requirement / Total Gross Income (%) | 122.2% | 119.7% | 115.8% | |
| Short-Term Direct Debt / Direct Debt (%) | 18.0% | 16.9% | 18.8% | |
| Interest Payments - GF / Net Revenue (%) | 9.7% | 10.0% | 7.9% | |

| Ratios/Measures | 2018/19 | 2019/20 | 2020/21 | |
|---|---|---|---|---|
| Interest Payments - HRA / HRA Revenue (%) | 7.7% | 7.4% | 5.7% | |
| Interest Payments / Net Revenue inc.HRA (%) | 9.3% | 9.6% | 7.5% | |
| Net Worth | £1,288.9m | £1,216.0m | £1,413.2m | |
| Gross External Debt | £1,248.5m | £1,380.3m | £1,387.7m | |
| **Longevity & Trends in Resources** | | | | |
| Adult Social Care Ratio | 19.4% | 19.6% | 18.4%* | |
| Children Social Care Ratio | | | | |
| Education Ratio | 37.2% | 39.0% | 36.5%* | |
| * **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 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, the proposal is to focus on the highest value 'top 20' income streams and expenditure commitments that the Council has.

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 **Using the Financial Resilience Framework**

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, I expect the Council to be able to 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 proposed should, in my view, 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 I see 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 values is still work in progress. I have indicated in the table at 6.36 if the ratio appears to be stable or improving or if we should be watching it .

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 is in, what I'd describe, as a strong position going into financial year 2021/22 with a healthy value of usable reserves and an appropriate sum uncommitted for specific purposes. Given the financial pressure in 2021/22, as reported in the Quarter 2 financial performance report, there is expected to be a downward impact on the level and value of resources available at the end of this financial year.

6.48 The 'Creation of Resources & Gearing" indicators show the cost of capital investment being affordable, the reasons include improving interest rate levels on which payments are charged as well as the changes that the Council has made to accounting policy in respect of the capital financing, prudently extending the useful lives of assets to better reflect the actual consumption of the assets. 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, was £1.4bn at 31 March 2021. 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 2021/22 budget in March 2021, the capital financing requirement 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 Medium Term Financial Strategy.

6.49 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. This includes a risk assessment, and specific consideration should be given to variable sums receivable from specific grants, developer obligations and external bodies. Further information in this regard will be incorporated into the Budget report for financial year 2022/23 in March 2022.

6.50 **Future development**

6.51 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 impact of the pandemic on the group entities, I propose that over the next year, in conjunction with them, we do further work to understand the relevant exposure that the Council has to each and to document this in an appropriate way

6.52 The ambition is that with further development and engagement with stakeholders in Scotland this can become more meaningful. Work already published in the LGBF for 2019/20 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. 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. I will update the Committee as this moves forward.

## *Appendix 1*

# Strategies on a Page

**LOIP**
- Place
- Children
- Adults
- Economy

**ACC Place**
- Local Development Plan
- Local Transport Strategy
- Local Housing Strategy
- Open Space Strategy
- City Centre Masterplan
- Energy and Climate Change Strategy
- Waste Strategy
- Granite City Food Growing Strategy

**ACC Enabling**
- Medium Term Financial Strategy
- Customer, Digital and Data Strategy
- Estates and Assets Strategy

**Partnership**
- Regional Economic Strategy 2015-25
- Nestrans Regional Transport Strategy 2013-35
- Cultural Strategy for Aberdeen 2018-28
- Aberdeen City and Shire Regional Skills Strategy
- Visit Aberdeen and Aberdeenshire Destination Tourism Strategy 2018-23
- Aberdeen City Alcohol and Drug Partnership Delivery Framework 2019-22
- North East Flood Risk Management Strategy
- Integrated Joint Board Strategic Plan
- Health and Social Care Partnership Carers Strategy 2018-21
- Joint Commissioning Strategy for Older People 2018-23
- Children's Services Plan

**ALEO**
- Aberdeen Sports Village Business Plan 2019-20
- Strategy for an Active Aberdeen 2016-26
- Sport Aberdeen – Facilities Strategy Dec 2016
- Sport Aberdeen – Play Parks Strategy
- Sport Aberdeen – Aquatics Strategy
- Aberdeen Performing Arts Business Plan 2018-19
- Aberdeen Heat and Power Business Plan – updated 2018
- Bon Accord Care and Bon Accord Support Services – 5 Year Strategic Plan 2017-22

## APPENDIX 2: 2021 GENERAL FUND CAPITAL PROGRAMME, APPROVED MARCH 2021

| Outturn 2020/21 £'000 | NHCP No. | | Budget 2021/22 £'000 | Budget 2022/23 £'000 | Budget 2023/24 £'000 | Budget 2024/25 £'000 | Budget 2025/26 £'000 | 5 Year Total £'000 |
|---|---|---|---|---|---|---|---|---|
| | | **Projects Due for Completion in 2020/21** | | | | | | |
| 5 | 794 | Hydrogen Buses | 0 | 0 | 0 | 0 | 0 | 0 |
| 39 | 810G | Co-mingled MRF & Depot | 0 | 0 | 0 | 0 | 0 | 0 |
| 83 | 811 | Social Care Facilities - Len Ironside Centre | 0 | 0 | 0 | 0 | 0 | 0 |
| 53 | 843 | Station House Media Unit Extension | 0 | 0 | 0 | 0 | 0 | 0 |
| 26 | 850 | Community Growing Spaces | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | 857 | Central Library Roof & Parapets | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | 858 | Crematorium Refurbishment | 0 | 0 | 0 | 0 | 0 | 0 |
| 285 | 859 | ICT: Human Capital Management System | 0 | 0 | 0 | 0 | 0 | 0 |
| 1,738 | 870 | Town Centre Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| 120 | 871 | Low Emissions Zone | 0 | 0 | 0 | 0 | 0 | 0 |
| **2,372** | | | **0** | **0** | **0** | **0** | **0** | **0** |
| | | **Rolling Programmes** | | | | | | |
| 2,902 | 294 | Corporate Property Condition & Suitability | 7,515 | 9,000 | 9,000 | 9,000 | 8,000 | 42,515 |
| 400 | tbc | Northfield Swimming Pool | 1,814 | 2,215 | 50 | 0 | 0 | 4,079 |
| 1,002 | 551 | Cycling Walking Safer Streets | 1,001 | 0 | 0 | 0 | 0 | 1,001 |
| 1,300 | 765G | Nestrans Capital Grant | 4,288 | 1,295 | 1,295 | 1,295 | 1,295 | 9,468 |
| 400 | 779 | Private Sector Housing Grant (PSHG) | 900 | 900 | 900 | 775 | 700 | 4,175 |
| 2,475 | 784 | Fleet Replacement Programme (including Zero Waste Strategy Fleet) | 7,390 | 6,017 | 4,700 | 4,900 | 5,100 | 28,107 |
| 3,000 | 789 | Planned Renewal & Replacement of Roads Infrastructure | 7,244 | 5,968 | 5,968 | 4,968 | 4,968 | 29,116 |
| 350 | 789E | Street Lighting | 1,200 | 1,272 | 1,200 | 1,000 | 1,000 | 5,672 |
| 1,029 | 835 | Street Lighting LED Lanterns (PACE 5 Year programme) | 1,946 | 2,121 | 0 | 0 | 0 | 4,067 |
| 1,000 | 861 | Additional Investment in Roads | 5,000 | 2,810 | 0 | 0 | 0 | 7,810 |
| 868 | 875 | Investment in Digital Transformation | 2,253 | 1,996 | 1,996 | 1,945 | 1,500 | 9,690 |
| **14,726** | | | **40,551** | **33,594** | **25,109** | **23,883** | **22,563** | **145,700** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **City Region Deal** | | | | | | |
| 0 | 825 | City Deal | 44 | 0 | 0 | 0 | 0 | 44 |
| 0 | 845 | City Deal: Strategic Transport Appraisal | 910 | 0 | 0 | 0 | 0 | 910 |
| 189 | 847 | City Deal: Digital Infrastructure | 1,394 | 1,871 | 0 | 0 | 0 | 3,265 |
| 375 | 852 | City Deal: City Duct Network | 2,873 | 1,610 | 0 | 0 | 0 | 4,483 |
| 150 | 854 | City Deal: Transportation Links to Bay of Nigg | 0 | 0 | 0 | 0 | 0 | 0 |
| 1,179 | 860 | City Deal: Expand Fibre Network | 628 | 0 | 0 | 0 | 0 | 628 |
| 73 | 862 | City Deal: Digital Lead | 73 | 194 | 0 | 0 | 0 | 267 |
| **1,966** | | | **5,922** | **3,675** | **0** | **0** | **0** | **9,597** |
| | | **Fully Legally Committed Projects** | | | | | | |
| 689 | 587 | Access from the North / 3rd Don Crossing | 572 | 0 | 0 | 0 | 0 | 572 |
| 2,534 | 627 | Aberdeen Western Peripheral Route | 7,000 | 7,000 | 443 | 0 | 0 | 14,443 |
| 300 | 776 | Orchard Brae | 354 | 0 | 0 | 0 | 0 | 354 |
| 4,210 | 799B | Art Gallery Redevelopment - Main Contract (HLF) | 0 | 0 | 0 | 0 | 0 | 0 |
| 100 | 805 | Technology Investment Requirements & Digital Strategy | 552 | 0 | 0 | 0 | 0 | 552 |
| 100 | 807 | A96 Park & Choose / Dyce Drive Link Road | 830 | 0 | 0 | 0 | 0 | 830 |
| 38 | 808B | New Academy to the South - Infrastructure Improvements | 250 | 0 | 0 | 0 | 0 | 250 |
| 7,043 | 809 | New Milltimber Primary | 10,832 | 3,069 | 0 | 0 | 0 | 13,901 |
| 20 | 810C | Energy from Waste (EfW) Procurement and Land Acq. | 1,140 | 0 | 0 | 0 | 0 | 1,140 |
| 26,095 | 810K | Energy from Waste (EfW) Construction | 25,843 | 16,212 | 0 | 0 | 0 | 42,055 |
| 569 | 812 | Kingsfield Childrens Home | 400 | 0 | 0 | 0 | 0 | 400 |
| 173 | 819 | Tillydrone Community Hub | 1,800 | 25 | 0 | 0 | 0 | 1,825 |
| 5,608 | 821 | New Aberdeen Exhibition & Conference Centre | 8,176 | 0 | 0 | 0 | 0 | 8,176 |
| 594 | 824 | Provost Skene House | 1,397 | 35 | 0 | 0 | 0 | 1,432 |
| 6,421 | 824 | Union Terrace Gardens | 16,325 | 824 | 0 | 0 | 0 | 17,149 |
| 0 | 828 | Greenbrae Primary Extension and Internal Works | 582 | 0 | 0 | 0 | 0 | 582 |
| 0 | 831 | Stoneywood Primary | 507 | 0 | 0 | 0 | 0 | 507 |
| 5,210 | 848 | JIVE (Hydrogen Buses Phase 2) | 0 | 0 | 0 | 0 | 0 | 0 |
| 94 | 849 | Cruyff Court | 30 | 0 | 0 | 0 | 0 | 30 |
| 2,320 | 873 | Queen Street Redevelopment (including Mortuary) | 215 | 0 | 0 | 0 | 0 | 215 |
| 50 | 876 | Campus Model for Co-location of Public Services | 200 | 0 | 0 | 0 | 0 | 200 |
| **62,168** | | | **77,005** | **27,165** | **443** | **0** | **0** | **104,613** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Partially Legally Committed Projects** | | | | | | |
| 0 | 791 | Strategic Land Acquisition | 4,093 | 0 | 0 | 0 | 0 | 4,093 |
| 1,080 | 806A | South College Street (Phase 1) | 3,153 | 5,550 | 850 | 0 | 0 | 9,553 |
| 1,000 | 806B | CATI - Berryden Corridor (Combined Stages 1, 2 & 3) | 1,553 | 1,803 | 7,546 | 0 | 0 | 10,902 |
| 316 | 820 | Investment in Tenanted Non-Residential Property Portfolio | 2,000 | 0 | 0 | 0 | 0 | 2,000 |
| 316 | 824 | City Centre Regeneration | 1,096 | 1,000 | 300 | 0 | 0 | 2,396 |
| 1 | 836 | Flood Prevention Measures: Flood Guards Grant Scheme | 100 | 100 | 100 | 100 | 67 | 467 |
| 0 | 844 | Sustrans Active Travel Infrastructure Fund | 290 | 0 | 0 | 0 | 0 | 290 |
| 15,000 | 855 | Early Learning & Childcare | 5,965 | 1,123 | 0 | 0 | 0 | 7,088 |
| 200 | 868 | Car Parking Infrastructure | 850 | 250 | 0 | 0 | 0 | 1,100 |
| 95 | 869 | Safety and Security Measures (including CCTV) | 2,470 | 0 | 0 | 0 | 0 | 2,470 |
| **18,008** | | | **21,570** | **9,826** | **8,796** | **100** | **67** | **40,359** |
| | | **Projects with indicative budgets** | | | | | | |
| 50 | 810J | Bridge of Don Household Waste Recycling Centre (HWRC) | 50 | 1,300 | 0 | 0 | 0 | 1,350 |
| 106 | 810K | Torry Heat Network | 8,164 | 5,966 | 0 | 0 | 0 | 14,130 |
| 0 | 838 | Flood Prevention Measures: Millside & Paddock Peterculter | 0 | 1,000 | 2,000 | 0 | 0 | 3,000 |
| 1,535 | 840 | Tillydrone Primary School | 7,835 | 11,750 | 1,789 | 955 | 0 | 22,329 |
| 1,460 | 841 | Torry Primary School and Hub | 12,030 | 9,141 | 280 | 0 | 0 | 21,451 |
| 1,110 | 865 | Countesswells Primary | 8,775 | 7,745 | 6,405 | 0 | 0 | 22,925 |
| 0 | 872 | Smart City | 360 | 0 | 0 | 0 | 0 | 360 |
| 0 | 874 | B999 Shielhill Road Junction Improvements | 50 | 100 | 490 | 0 | 0 | 640 |
| 0 | tbc | St Peters RC Primary Relocation (Design Development) | 250 | 250 | 0 | 0 | 0 | 500 |
| 0 | tbc | The Woodies Environmental Improvements | 75 | 0 | 0 | 0 | 0 | 75 |
| 0 | tbc | Electric Vehicle Infrastructure | 135 | 135 | 135 | 135 | 135 | 675 |
| 0 | tbc | Aberdeen Hydrogen Hub | 11,500 | 7,500 | 0 | 0 | 0 | 19,000 |
| 0 | tbc | Auchmill Community Woodland Path | 120 | 0 | 0 | 0 | 0 | 120 |
| 0 | tbc | City Centre and Beach Masterplans | 20,000 | 25,000 | 25,000 | 40,000 | 40,000 | 150,000 |
| **4,261** | | | **69,344** | **69,887** | **36,099** | **41,090** | **40,135** | **256,555** |
| **103,501** | | **Totals** | **214,392** | **144,147** | **70,447** | **65,073** | **62,765** | **556,824** |

| Outturn 2020/21 £'000 | NHCP No. | Non-Housing Capital Programme | Budget 2021/22 £'000 | Budget 2022/23 £'000 | Budget 2023/24 £'000 | Budget 2024/25 £'000 | Budget 2025/26 £'000 | 5 Year Total £'000 |
|---|---|---|---|---|---|---|---|---|
| (1,002) | 551 | Cycling Walking Safer Streets | (1,001) | 0 | 0 | 0 | 0 | (1,001) |
| 0 | 587 | Access from the North / 3rd Don Crossing | (2,000) | 0 | 0 | 0 | 0 | (2,000) |
| (300) | 765 | Nestrans Capital Works | 0 | 0 | 0 | 0 | 0 | 0 |
| (176) | 784 | Fleet Replacement Programme (including Zero Waste Strategy Fleet) | 0 | 0 | 0 | 0 | 0 | 0 |
| (62) | 789 | Planned Renewal & Replacement of Roads Infrastructure | 0 | 0 | 0 | 0 | 0 | 0 |
| (512) | 799B | Art Gallery Redevelopment - Main Contract (HLF) | (7,931) | 0 | 0 | 0 | 0 | (7,931) |
| (3) | 805 | Technology Investment Requirements & Digital Strategy | 0 | 0 | 0 | 0 | 0 | 0 |
| (3) | 806B | CATI - Berryden Corridor (Combined Stages 1, 2 & 3) | 0 | 0 | 0 | 0 | 0 | 0 |
| (31) | 809 | New Milltimber Primary | (1,869) | 0 | 0 | 0 | 0 | (1,869) |
| 0 | 810C | Energy from Waste (EfW) Procurement and Land Acq. | (136) | 0 | 0 | 0 | 0 | (136) |
| (109) | 810K | Energy from Waste (EfW) Construction & Torry Heat Network | 0 | 0 | 0 | 0 | 0 | 0 |
| (1,800) | 821 | New Aberdeen Exhibition & Conference Centre | (25,757) | 0 | 0 | 0 | 0 | (25,757) |
| (35) | 824 | City Centre Regeneration | (142) | 0 | 0 | 0 | 0 | (142) |
| 0 | 828 | Greenbrae Primary Extension and Internal Works | (682) | 0 | 0 | 0 | 0 | (682) |
| (307) | 831 | Stoneywood Primary | (3,715) | 0 | 0 | 0 | 0 | (3,715) |
| 0 | 836 | Flood Prevention Measures: Flood Guards Grant Scheme | (80) | (80) | (80) | (80) | (54) | (374) |
| 0 | 838 | Flood Prevention Measures: Millside & Paddock Peterculter | 0 | 0 | (2,400) | 0 | 0 | (2,400) |
| 63 | 844 | Sustrans Active Travel Infrastructure Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| (5,900) | 848 | JIVE (Hydrogen Buses Phase 2) | 0 | 0 | 0 | 0 | 0 | 0 |
| (20) | 849 | Cruyff Court | (25) | 0 | 0 | 0 | 0 | (25) |
| (375) | 852 | City Deal: City Duct Network | (2,873) | (1,610) | 0 | 0 | 0 | (4,483) |
| (150) | 854 | City Deal: Transportation Links to Bay of Nigg | 0 | 0 | 0 | 0 | 0 | 0 |
| (15,000) | 855 | Early Learning & Childcare | (9,040) | 0 | 0 | 0 | 0 | (9,040) |
| (1,179) | 860 | City Deal: Expand Fibre Network | (628) | 0 | 0 | 0 | 0 | (628) |
| (73) | 862 | City Deal: Digital Lead | (73) | (194) | 0 | 0 | 0 | (267) |
| 0 | 865 | Countesswells Primary | (1,542) | (2,500) | (2,500) | (2,500) | 0 | (9,042) |
| (1,738) | 870 | Town Centre Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| (120) | 871 | Low Emission Zone | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 874 | B999 Shielhill Road Junction | (50) | (100) | (150) | 0 | 0 | (300) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 0 | tbc | Aberdeen Hydrogen Hub | (9,500) | (5,500) | 0 | 0 | 0 | 0 |
| **(28,832)** | | **1. Programme Funding Streams Sub-Total** | **(67,044)** | **(9,984)** | **(5,130)** | **(2,580)** | **(54)** | **(84,792)** |
| **(18,654)** | | **2. Capital Grant** | **(18,512)** | **(18,512)** | **(18,512)** | **(18,512)** | **(18,512)** | **(92,560)** |
| **(56,015)** | | **3. Borrowing** | **(128,836)** | **(115,651)** | **(46,805)** | **(43,981)** | **(44,199)** | **(379,472)** |
| **(103,501)** | | **Sub-total** | **(214,392)** | **(144,147)** | **(70,447)** | **(65,073)** | **(62,765)** | **(556,824)** |
| **0** | | **Net Position** | **0** | **0** | **0** | **0** | **0** | **0** |