

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Council
<b>DATE</b>	7 March 2022
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	General Fund Revenue Budget and Capital Programme 2022/23 to 2026/27
<b>REPORT NUMBER</b>	RES/22/061
<b>DIRECTOR</b>	Gale Beattie
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Jonathan Belford
<b>TERMS OF REFERENCE</b>	1 and 2

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### 1. PURPOSE OF REPORT

- 1.1 This report provides the Council with information on both the revenue budget for 2022/23 and capital programme for the period 2022/23 to 2026/27 in order that approved budgets and Council Tax value can be set by the Council for the year commencing 1 April 2022. The presentation of the revenue and capital budgets this year are set against the on-going uncertainty created by the pandemic, volatile and rising inflation, and net zero targets.

### 2. RECOMMENDATIONS

It is recommended that Council:

#### 2.1 Balance Sheet Recommendations

- 2.1.1 Note the projected balance sheet position including the reserves as at 31 March 2022, shown at Appendix 1;
- 2.1.2 Consider the Council's Financial Resilience Framework measures, included at Appendix 2, and Prudential Indicators, at Appendix 3, providing current and forward-looking data and insight to aid understanding of the implications of capital investment prior to setting Council Tax and the Revenue and Capital budgets;
- 2.1.3 Approve the Prudential Indicators as attached at Appendix 3;
- 2.1.4 Approve the General Fund Capital Programme as attached at Appendix 4;
- 2.1.5 Consider the capital projects described in Appendix 5, which were referred to the General Fund Capital Programme;
- 2.1.6 Approve the Revenue and Capital Reserves Policy for 2022/23 as detailed in Appendix 6.

## 2.2 Medium-Term Financial Projections

- 2.2.1 Note the forecast medium-term financial projection for the period ending 31 March 2027 as shown in paragraph 3.36;
- 2.2.2 Note that the Scottish Government has stated the intention to publish a Resource Spending Review in May 2022;
- 2.2.3 Note the important context of climate change and in particular the Net Zero Aberdeen Routemap and associated place based strategies that are in line with the Net Zero Vision to achieve the goal of a Net Zero Aberdeen by 2045, as approved by Council on 28 February 2022 (COM/22/054);
- 2.2.4 Note that the National Care Service consultation that took place during 2021/22 has potential implications for Council resources and operational arrangements during the period of the next Medium Term Financial Strategy;
- 2.2.5 Instruct the Chief Officer – Finance to refresh the Medium Term Financial Strategy and report to the Council by the end of August 2022; and
- 2.2.6 Instruct the Chief Executive to report to the Council, by the end of August 2022, on a refreshed Target Operating Model, to address the challenges of the next 5 years.

## 2.3 Revenue Budget Recommendations

- 2.3.1 Note that the conditions outlined by the Scottish Government within the Local Government Finance Settlement for 2022/23 are met by the proposals set out in the report;
- 2.3.2 Note the ongoing exceptional operating environment created because of the Covid-19 pandemic and price inflation that there are known and unknown risks that arise as described in the report, consideration should be given to increasing the £4m of in-year contingencies included in the budget;
- 2.3.3 Approve the redesign of Council services to address demand, in line with the commissioning led approach described in the report, and to set at least a balanced budget for financial year 2022/23, having due regard to;
  - a) The Budget Model as contained in paragraph 3.36 that identifies a funding shortfall of £32.2m for 2022/23;
  - b) The impact of service redesign on services and fees and charges described in Appendix 7;
  - c) The Revenue and Capital Reserves Policy, that sets out the Council should maintain uncommitted General Fund balances of £12m;
  - d) The Financial Resilience Framework data shown in Appendix 2;
  - d) The Prudential Indicators and impact of the General Fund Capital Programme on revenue expenditure, Appendix 3;
  - e) The savings options and cost of implementation put forward in Appendix 8 and Fees and Charges proposals in Appendix 9;
  - f) The Cosla commitment to 1% of the budget being subject to participatory budgeting;
  - f) The revenue items referred to the budget process, as shown in Appendix 10;
  - h) The Council's Risk Appetite Statement; and
  - i) Integrated impact assessments and screening results provided in the background papers.
- 2.3.4 Approve the Commissioning Intentions and Service Standards as described in Appendices 10 and 11 respectively, subject to any amendments approved as per 2.3.3 above, noting that the Chief Officer – Finance has confirmed that the Commissioning Intentions being implemented are consistent with the draft budget for 2022/23 and Medium Term Financial Strategy;

- 2.3.5 Approve the level of funding for the Aberdeen City Health & Social Care Partnership IJB 2022/23 to meet the conditions of the Scottish Government Financial Settlement, described in paragraphs 3.96 and 3.101 to 3.106, and to note that it will be for the IJB itself to determine how it will balance its budget;
- 2.3.6 Approve the fees and charges for the Aberdeen City Health & Social Care Partnership IJB, as shown in Appendix 9;
- 2.3.7 Approve the level of funding for the Council's other group entities and Arm's Length External Organisations (ALEOs), in 2022/23 with reference to paragraphs 3.91 to 3.114;
- 2.3.8 Approve the continued delegation of authority to the Chief Officer – Finance to approve the allocation of Covid19 related funding retained as an earmarked General Fund reserve at 31 March 2022, and any further sums distributed to the Council, to meet need and demand or to cover for lost income where it arises during 2022/23, reporting the use of funds to the City Growth and Resources Committee in the quarterly financial performance reports;
- 2.3.9 Note the Council's approach towards meeting the target of 1% of revenue funding being available for Participatory Budgeting, paragraph 3.83, and instruct the Chief Officer – Early Intervention and Community Empowerment to report to a future Council meeting on the impact of Participatory Budgeting in Aberdeen;
- 2.3.10 Instruct the Chief Officer – Finance to give notice to the Board of Directors of NYOP Education (Aberdeen) Ltd to disburse £387,000 to Sport Aberdeen and £130,000 to VSA, being nominated charities of NYOP; and
- 2.3.11 Instruct the Chief Officer – Finance to recover the full costs associated with being the Administering Authority of the North East Scotland Pension Fund from the Pension Fund.

## 2.4 Taxation Recommendations

- 2.4.1 Approve a Band D equivalent Council Tax rate of £1,422.75 (3.3% increase), with effect from 1 April 2022;
- 2.4.2 Impose and levy Council Tax assessments for the period 1 April 2022 to 31 March 2023 on all chargeable dwellings in Aberdeen City to be paid by the persons liable therefor under the Local Government Finance Act 1992, as amended by the Local Government etc. (Scotland) Act 1994;
- 2.4.3 Note the Scottish Government's announcement of £150 for households in Council Tax Bands A-D and those eligible for Council Tax Reduction, and that this will be applied as a credit to Council Tax accounts in 2022/23;
- 2.4.4 Note that the Council implements revisions to National Non-Domestic Rates as defined by the Scottish Government within the relevant legislation and Finance Circulars, with effect from 1 April 2022; and
- 2.4.5 Impose and levy Non-Domestic Rates assessments for the period 1 April 2022 to 31 March 2023 on all occupiers in Aberdeen City to be paid by those liable.

## 3. **BACKGROUND**

### **CURRENT CONTEXT**

#### **Recent reporting and political announcements**

- 3.1 The City Growth and Resources Committee has received three reports during the financial year 2021/22 on the financial position of the Council during an extremely changeable year, from the ongoing and changing restrictions to respond to the pandemic, and financial market and inflation pressure emerging and continuing to escalate. With one month until the end of the financial year the Chief Officer – Finance is confident that the year end position for the General Fund will be

balanced through the use of earmarked reserves set aside at the end of last year for the purposes of protecting the Council against a deficit position.

- 3.2 The Scottish Budget for 2022/23 was published on 9 December 2021 and passed its third stage in the Scottish Parliament on 10 February 2022.
- 3.3 The Local Government Settlement was announced for a single year, 2022/23, on 20 December 2021, which amounted to revenue and capital funding of £12.5bn. An amendment was announced on 27 January 2022 by the Cabinet Secretary for Finance and Economy at Stage 1 of the Budget Bill, which increased General Revenue Funding for Local Government by £120m.
- 3.4 It should be noted that at Stage 3 of the Budget Bill, on 10 February 2022, funding was committed to provide £150 to every household in the receipt of Council Tax Reduction and to every household in Council Tax bands A to D. The distribution of funding to deliver this commitment is still to be determined and it is assumed that the commitment will be fully funded and will therefore not have to be addressed as part of the 2022/23 revenue budget. The Council is working with professional bodies, the Scottish Government and system providers to implement a solution so that eligible households receive a credit against Council Tax accounts at the start of financial year 2022/23.

#### **2021/22 Balance Sheet Position**

- 3.5 The position as at 31 March 2021 per the audited 2020/21 accounts showed the Council was worth £1.4 billion.
- 3.6 The projected balance sheet position at 31 March 2022 is shown in Appendix 1 and estimates the net worth of the Council will be maintained around £1.5 billion by the end of the year. The projected position excludes any potential revaluations of its land and property assets and movements in liabilities such as pensions which are only reviewed and updated at year end for inclusion within the annual accounts. The Council's 2020/21 Annual Accounts includes a note that draws attention to the material uncertainty there is in relation to property and investment valuations of certain asset classes, recognising the ongoing volatile environment we are in. Valuations are predominantly based on market data and therefore affects both private and public sectors.
- 3.7 The Balance Sheet provides information on the currently projected level of reserves and balances held by the Council at 31 March 2022. The Accounts Commission in its Local Government in Scotland: Overview 2021 report highlight that "It is important that councils continue to recognise the sustainability challenges of using reserves to fund recurring expenditure, particularly as the impact and challenges of Covid-19 continue to develop."

#### **Reserves Policy**

- 3.8 Reserves can be categorised as usable and unusable. The Usable Reserves of the Council are the accumulated funds that the Council has generated in the past, to provide resilience and options for the future. Usable reserves can be broken down further as follows:
  - Earmarked – funds approved by committee to be set aside for known financial commitments or liabilities which will require to be settled in a future financial year. The set aside of funds de-risks the Council from future financial exposure without having to make in-year savings to meet the liability;

- Uncommitted – a sum set aside, not held for any specific purpose and likely to be utilised in the event of major unforeseen incidents or emergencies;
- Statutory – these funds are held under statute for specific purposes. The main two funds are the Capital Fund (only to be used for the repayment of debt principal and capital expenditure) and the Insurance Fund (for use in mitigating insurance payment related risks arising from claims).

- 3.9 In relation to the resilience that is provided by the Usable Reserves, it is vital that the Council has a robust Reserves Policy to measure the risks that exist for the organisation, providing the assurance that there is the ability to act in the event of any unforeseen events as well as preserving a robust position in relation to contingent liabilities that it might be exposed to in the future. These potential liabilities are regularly reviewed and updated in the quarterly monitoring reports, as well as disclosed in the annual accounts.
- 3.10 Unusable reserves are not available to be utilised by the Council. These reserves are used for accounting adjustments, reflecting statutory provisions in place to avoid costs being charged to the Council's General Fund while meeting reporting requirements as defined within International Financial Reporting Standards.
- 3.11 A refresh of the Reserves Policy is attached at Appendix 6. In setting its budget, the Council must take account of the Policy. This includes understanding the extent of contingent liabilities referred to above and described in Appendix 13.

### **Financial Resilience**

- 3.12 What has become crystal clear during the last two financial years, 2020/21 and 2021/22, is that a single event has the ability to impact the financial position of the Council so significantly that it needs to have resources immediately available to provide short term financial resilience, local government cannot rely on the instant distribution of funding from national governments to counter act the impact. It means that having balance sheet resilience is vital.
- 3.13 The council recognised the need to give greater attention to financial resilience and the Chief Officer – Finance produced a Financial Resilience Framework for Aberdeen City Council, presenting it as part of the Medium Term Financial Strategy, 2021, to the City Growth and Resources Committee in November 2021. The Framework is extracted and included in this report at Appendix 2.
- 3.14 The financial resilience framework proposed should, 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. It is an 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.
- 3.15 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.
- 3.16 The data should act as triggers for action, and 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.

- 3.17 The immediate future remains uncertain, not just because of the ongoing pandemic restrictions that remain and possibility for recurrence, but also from price and pay inflation, where energy, construction, materials and pay demands are all reaching levels of growth that have not been seen for many years. Recent developments in Ukraine, with the invasion by Russia means this picture gets potentially more unstable and challenging as Ukraine fights back and countries around the world respond with sanctions. It adds further geopolitical risk that the Council may find impacts it's plans.
- 3.18 Maintaining the financial resilience that the Council must be considered when taking the decisions required by this report.

### **2021/22 Revenue Position**

- 3.19 At its meeting on 3 February 2022, the City Growth & Resources Committee considered the Council's Quarter 3 Financial Performance Report. In terms of the General Fund financial position, the report highlighted that performance for the year to date has remained relatively positive with reserves carried from last year into 2021/22 and General Revenue Grant funding being advanced in the first half of the year. The year has again been challenging both from an operational as well as a financial perspective, due to the pandemic restrictions that have frequently changed and affecting everyone. This has had an impact on our income in particular although additional costs in certain areas remain evident. With certainty over the value of the various grant funding streams that will now be received by the Council the Quarter 3 position is an improvement on Quarter 2. The operational deficit is forecast to be brought into balance by the year end using general reserves that had been earmarked at 31 March 2021.
- 3.20 The financial outturn for the Capital Programme is lower than budget primarily due to the timing of expenditure, which has reduced the requirement for borrowing during the financial year. The ongoing impact of the national lockdown in 2020 and the changing restrictions that have been in place throughout the year have had an impact on the time taken to progress construction projects. Cost inflation in construction has escalated substantially during the year with tenders and contract pricing showing significant uplift from pre-pandemic levels. The City Growth and Resources Committee asked that a recommendation was made on the value of contingency that should be included in the Capital Programme to provide resilience to the programme, the recommendation is made at paragraph 3.126. Project progress continues to be is monitored through the Capital Programme Committee.
- 3.21 The Council had approved the use of fiscal flexibilities in its budget for 2021/22, which are a range of permitted accounting interventions that would provide one-off benefit to the revenue position of the Council. Due to the conditions this year the need to use those flexibilities has been limited to the use of Capital Receipts to fund voluntary severance and early retirements. The Council will not use the flexibility of a one-year deferral of debt principal repayment, and following the permission provided by the Scottish Government this flexibility is available in 2022/23.
- 3.22 The report also focussed on the Council's Balance Sheet and Reserves, providing details as at Quarter 3 and the projected level of usable reserves at year end. The projected position took account of the forecast overall position and use of capital receipts to pay for voluntary severance and early retirement costs.

## **FINANCIAL PLANNING**

3.23 Good financial stewardship should be demonstrated through short, medium and long term financial planning and forecasting. The Council now has in place three core financial planning and forecasting statements which are:

- Short Term Plans – namely a one year budget for the forthcoming financial year with an indicative future two years. This is updated annually;
- Medium Term Financial Plans – this is a forecast of potential scenarios over the medium term which for Aberdeen City Council this is a 7-year examination of scenarios. This is updated every 1-3 years; and
- Long Term Financial Plans – this looks at the long term financial planning and affordability of commitments both known and unknown including long term capital investment. This is planned to be updated approximately every 5 years.

3.24 The purpose of the 3 financial planning documents above is to ensure that the Council is demonstrating an annual balanced budget position coupled with the medium term financial scenario planning and finally a long term affordability plan demonstrating the sensitivities the Council should pay due cognisance to in the long term.

### **Long Term Financial Planning**

3.25 Officers reported to Council on 17 August 2016 with a long term financial plan. The purpose of the plan at the time was to demonstrate to both the credit rating agencies, potential Bond investors as well as general market commentary that the Council had considered its long-term financial position.

3.26 This long-term financial position demonstrated the projected movement in its overall debt portfolio and provided an assurance that the level of capital investment projected at that point in time was affordable but also showed how, in this context, income and expenditure streams would move based on a form of index linking at the time.

3.27 The Council's Best Value Assurance Report, published in June 2021, recommended that this be refreshed, and work will be completed during 2022/23 to update the Council's long term financial plans.

### **Medium Term Financial Strategy**

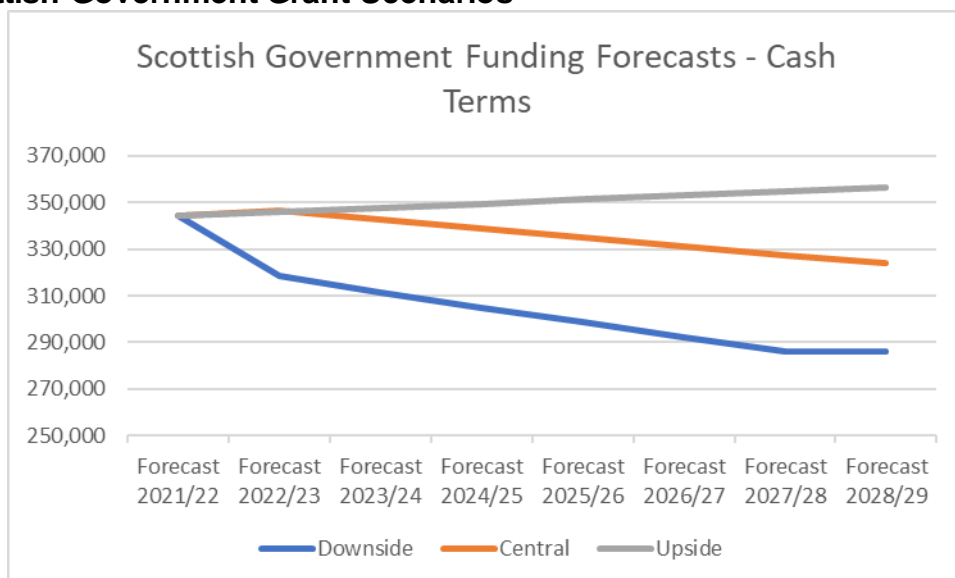
3.28 The Council was presented with the latest 7-year Medium Term Financial Strategy (MTFS) at City Growth and Resources Committee on 10 November 2021. This set out the commitment to provide services that meet the needs of people locally, and represents good value for money. The MTFS is aligned to the Council Delivery Plan, which in turn aligns the Council's commitments to the vision and priorities of the Local Outcome Improvement Plan.

3.29 This medium-term strategy sets out assumptions regarding the ongoing short-term implications of the current operating environment for financial year 2022/23 and then goes on to make some informed assumptions for financial years 2023/24 – 2028/29. The Scottish Government announced a one-year budget for 2022/23 in December 2021 and intend to set out future years in Spring 2022. If this happens then having detail to underpin medium term financial assumptions will assist the Council to understand the resourcing parameters to a level of detail that has not

been possible for around 15 years, when three-year financial settlements were provided.

- 3.30 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 subject to refinement and change over time. Therefore, a series of scenarios should be used to describe a range of income possibilities. This current draft MTFS utilises 3 scenarios similarly used by the Office for Budget Responsibility. These scenarios will be refreshed regularly as part of the budget setting and strategic planning processes.
- 3.31 Illustrated within the MTFS are projected financial scenarios that highly dependant on the level of Scottish Government funding. The settlement that the Council has received for 2022/23 cannot be compared directly with these scenarios as the level of additional expenditure that will be incurred increases. The underlying settlement for 2022/23 is broadly as expected in the Central Scenario therefore the chart below remains an appropriate presentation of Council core revenue funding. It also shows the need for increased certainty by the Scottish Government in providing medium term settlement information alongside the annual budget.

### Scottish Government Grant Scenarios



From an approved budget level (excluding one-off funding streams) of government funding of £344m, the upside position looks at a scenario of that rising slowly by just £12m to £356m over the next seven years. On the downside the value of core funding, could be as low as £286m, a funding range of £70m.

- 3.32 Limits placed on the 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. Fundamentally 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.

### Short Term Financial Planning

- 3.33 Short-term financial planning is, in essence, the setting of a balanced budget for the forthcoming financial year as well as determining the level of council tax. These are statutory requirements placed on the Council.
- 3.34 The short-term planning requires the translation of the financial settlement into the annual financial plan for the council. Through the local government settlement the Scottish Government have the ability to set out any grant conditions that they would



wish to see implemented. Contained within the settlement for 2022/23 the following grant conditions have been applied:

- Maintaining the overall national pupil-teacher ratio;
- Continued support by Council's for probationer teachers;
- New Health and Social Care monies to be passported through to support the Health and Social Care Partnership Integration Joint Board;
- Specific grant funding is to be applied to the services that are described by Scottish Government.

3.35 It is notable that for 2022/23 the conditions on Council Tax have been lifted, and as such changes are neither capped nor limited for the first time since 2007/08.

3.36 The financial model (5 years), based on latest assumptions is shown below:

General Fund	Budget 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27
Commissioning	23,331	23,300	24,057	24,732	25,426	26,139
Customer	37,720	41,233	42,999	44,647	46,325	48,034
Integrated Joint Board	95,184	114,562	114,562	114,562	114,562	114,562
Operations	265,247	287,706	297,912	307,915	316,561	325,182
Resources	2,339	3,488	4,537	5,669	7,077	8,510
Corporate	55,971	63,142	72,306	75,618	79,712	81,933
<b>Net Expenditure</b>	<b>479,792</b>	<b>533,432</b>	<b>556,374</b>	<b>573,142</b>	<b>589,662</b>	<b>604,360</b>
Funded By						
General Revenue Grant	(141,470)	(107,698)	(106,072)	(104,465)	(102,875)	(101,303)
NNDR	(202,923)	(268,557)	(265,563)	(262,602)	(259,674)	(256,779)
Council Tax	(128,899)	(124,937)	(125,975)	(127,013)	(128,051)	(128,553)
Use of Reserves	(6,500)	0	0	0	0	0
<b>Core Funding</b>	<b>(479,792)</b>	<b>(501,192)</b>	<b>(497,610)</b>	<b>(494,080)</b>	<b>(490,600)</b>	<b>(486,635)</b>
<b>Net Impact on General Fund</b>	<b>0</b>	<b>32,240</b>	<b>58,764</b>	<b>79,063</b>	<b>99,062</b>	<b>117,724</b>
<b>Impact of Council Tax Increase:</b>						
Council Tax increase by 3.3% annually		(4,089)	(8,381)	(12,849)	(17,499)	(22,319)
<b>Updated Net Impact on General Fund</b>	<b>0</b>	<b>28,151</b>	<b>50,383</b>	<b>66,214</b>	<b>81,563</b>	<b>95,406</b>
Impact of Recommissioning in 22/23 - recurring		(30,535)	(30,535)	(30,535)	(30,535)	(30,535)
Impact of Recommissioning in 22/23 - non-recurring		(387)	0	0	0	0
<b>Updated General Fund Position</b>		<b>(2,771)</b>	<b>19,848</b>	<b>35,679</b>	<b>51,028</b>	<b>64,871</b>
Annual Gap between Income and Expenditure			19,848	15,830	15,350	13,842

3.37 The table above draws attention to the total budget gap in 2022/23 of £32.2m. It also shows the impact of balancing the budget in 2022/23, based on the MTFs assumption on Council Tax of a 3.3% increase, and the recommissioning of services, which will reduce expenditure and increase income. Further detail of the assumptions used to model expenditure and income are shown in Appendix 14 and a graphical representation of the funding gap is contained in Appendix 7.

3.38 In order to achieve a balanced budget it requires the implementation of a range of changes that will affect both income and expenditure, changes have to be recurring if they are to address financial sustainability. The proposals, in Appendix 8, are predominantly recurring (99%) which means that once delivered they will impact positively on the gap between future income and expenditure, reducing the budget gap in years 2023/24 and beyond.

3.39 This is demonstrated above (in table at 3.36), with the approval of this budget and assuming a Council Tax rise of 3.3% in 2022/23 (in line with the Council's adopted

MTFS), and an assumed increase in future years of 3.3%, the overall impact would be to reduce the gap in the future to £95.4m by 2026/27. The Extended Corporate Management Team are already working on the solutions to this.

- 3.40 The Council, setting its budget for 2021/22 made decisions to use one-off funding, for example, in the form of general revenue grants that were paid to the Council in the latter stages of 2020/21 as part of the financial support provided for the pandemic. The unspent value of grant has been carried on the Council's Balance Sheet as part of General Fund Reserves. Using one-off funding is an unsustainable approach and therefore each annual budget has to unwind the one-off funding solutions increasing the financial challenge in the following year to approve a balanced budget. In total for 2022/23 the Council has unwound over £12m of one-off funding used in 2021/22.
- 3.41 The financial position of the Council has already been described above, and balancing the forecast deficit with the use of reserves will reduce the Reserves that Council had set aside last year to address risks such as the impact of the pandemic. The Council's financial resilience is underpinned by the assets that it has and the Reserves that it retains. Having those resources in times of need are essential and therefore care has to be taken in determining when and how to use them. The Financial Resilience Framework as part of the MTFS shows that the Council has insight into key indicators of resilience and can understand what it means if retained resources are eroded. Decision making for the annual budget must take account of the position.

#### **Scottish Government Financial Settlement 2022/23**

- 3.42 The total recurring funding package received for the 2022/23<sup>1</sup> financial year is £390.6m (£376.0m 21/22<sup>2</sup>). However, this includes ring-fenced funding to the value of £28.8m (£32.2m 21/22). Which means that the amount available to support the general fund budget is £361.8m (£343.8m 21/22). At face value this represents an increase in grant funding of £18.0m or 5.2% from 2021/22.
- 3.43 The settlement places new obligations / conditions on the Council, particularly in relation to Health and Social Care funding, including continuing to deliver the real living wage; the impact of the Carers Act expansion; and uprating free personal and nursing care payments. Additional expenditure of £13.2m will be required to fund the Aberdeen City Health and Social Care Partnership, over and above 2021/22, from the funding provided in 2022/23.
- 3.44 On top of this are commitments to education and children services, where £5.3m will also have to be funded to cover additional teachers and pay implications as well as mental health funding for children and pupil clothing grants.
- 3.45 Add to this other policy commitment funding changes and a total of £18.5m of additional commitment has been made that the Council will need to spend.
- 3.46 Therefore £18.5m for 2022/23 needs to be removed from the amount available to support existing general fund services (£361.8m - £18.5m = £343.3m).

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<sup>1</sup> 2022/23 values taken from Finance Circular 9/2021, which was revised on 22 December 2021.

<sup>2</sup> 2021/22 values taken from Finance Circular 5/2021, which was published on 19 March 2021 following the approval of the Local Government Finance (Scotland) Order 2021.

- 3.47 When £343.3m is compared with the funding the Council has for the same set of services in 2021/22 (£343.8m) then the settlement for 2022/23 has decreased revenue funding by 0.1%, or £0.5m.
- 3.48 In 2022/23 this is only part of the revenue picture, as ring-fenced funding of £28.8m is being paid to the Council as referred to above. This is to pay for five specific Council activities, namely Gaelic; Pupil Equity Funding (PEF); Criminal Justice Social Work; Early Learning and Childcare Expansion; and a new Early Years Deferral Pilot.
- 3.49 Comparing 2021/22 funding for the same activities the funding is flat cash for Gaelic, PEF and Criminal Justice Social Work. The Early Years Deferral Pilot is new funding, with Aberdeen City receiving £1.2m as part of the pilot and was not funded in 2021/22.
- 3.50 Where a difference lies is in Early Learning & Childcare (ELC) Expansion. The specific grant for ELC Expansion has reduced from £25.1m to £20.5m, a reduction of £4.6m or 18%. Aberdeen City will bear the largest percentage decrease in grant, and the second largest reduction in value terms. This is the effect of both the underlying quantum for ELC Expansion reducing by £23.9m and a change agreed by Cosla for the distribution method to be revised. Despite a three year transitional period to the new distribution method the impact is greater than had been forecast in the MTFs.
- 3.51 Based on the Scottish Government's Finance Circular setting out the 2022/23 Local Government Settlement Aberdeen City Council, taking into account both General Revenue and Ring-Fenced Revenue grant funding, on a like for like basis, reveals a settlement in 2022/23 that is £5.1m worse than in 2021/22. This represents a 1.4% reduction year on year.
- 3.52 The Scottish Budget 2022/23 has now been approved by the Scottish Parliament and this included an additional announcement for Local Government, with an added one-off sum of £120m being included. This has been confirmed as an additional £4.3m for the Council.
- 3.53 Taking all of this together the Council will have in 2022/23, on a like for like basis, £0.8m lower than in 2021/22, a reduction of 0.2%.
- 3.54 Despite this, based on the calculation methodology, the level of council funding exceeds 85% of the Scottish per capita and therefore there is no additional funding from the '85% floor' calculation.
- 3.55 It should be noted that the table at 3.3? includes the assumption that funding from Scottish Government that is as yet undistributed will be confirmed and received later in the year for specific services, including additional funding for the Aberdeen City Health and Social Care Partnership IJB.

### **Taxation Powers**

#### **Non-Domestic Rates**

- 3.56 Comparing 2022/23 and 2021/22 is complex due to the impact of Covid-19 Retail, Hospitality and Leisure (RHL) rates relief was announced in March 2021 and the partial effect of relief being applied in 2022/23. This means that the anticipated level of NDR for Aberdeen City 2022/23 will increase by £66m to £269m.

- 3.57 The total level of NDR collectable, and retained, by the Council in 2021/22 is shown as £269m. The total collectable for Scotland is £2,766m (an increase of 32.3% from 2021/22, and takes account of a reduction in the relief to RHL, which for 2022/23 will be 50% relief for the first three months, capped at £27,500 per ratepayer).
- 3.58 The 2022/23 NDR poundage rate has been provisionally set at 49.8p. The decrease (from 49.0p in 2021/22) will return the level to that applied in 2020/21.
- 3.59 Transitional arrangements (including 'transitional relief') are proposed to continue until the next revaluation in 2022 for hospitality properties (with a rateable value up to £1.5m) and offices in Aberdeen City and Shire. The level of the cap on bill increases from 2021/22 to 2022/23 will again be 12.5 % real terms.

### Council Tax

- 3.60 As detailed earlier the restrictions and conditions on Council Tax have been removed as part of the Local Government Settlement. This means that the Council has the ability to set a rate of its choice.
- 3.61 The Medium Term Financial Strategy (MTFS), 2021, assumes an increase in the rate of Council Tax equivalent to 3.3%, generating an income for the Council of £4.1m. The Council in considering the options for balancing the 2022/23 budget are recommended to approve an increase in the rate of Council Tax, as it will provide protection for cost and demand increases in the years ahead and as a recurring income stream will improve the Council's sustainability. For illustrative purposes the table below shows the impact of alternative increases, with other assumptions being:
- Collection rates will be maintained at current levels;
  - The number of Band D equivalent properties will increase by 0.8%, such that projected income will increase by £1.0m.
- 3.62 The current Band D value for Aberdeen City is £1,377.30 per annum. The current Band D Scottish average is £1,308. These figures exclude water and waste water charges.
- 3.63 The impact of percentage increases in Council Tax by Band is shown in the table below:

Council Tax Band	2021/22 Council Tax	Indicative 2022/23 Charge if percentage increase applied										
		1.00%	2.00%	3.00%	3.30%	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%
Band A	£ 918.20	£ 927	£ 937	£ 946	£ 949	£ 955	£ 964	£ 973	£ 982	£ 992	£ 1,001	£ 1,010
Band B	£ 1,071.23	£ 1,082	£ 1,093	£ 1,103	£ 1,107	£ 1,114	£ 1,125	£ 1,136	£ 1,146	£ 1,157	£ 1,168	£ 1,178
Band C	£ 1,224.27	£ 1,237	£ 1,249	£ 1,261	£ 1,265	£ 1,273	£ 1,285	£ 1,298	£ 1,310	£ 1,322	£ 1,334	£ 1,347
Band D	£ 1,377.30	£ 1,391	£ 1,405	£ 1,419	£ 1,423	£ 1,432	£ 1,446	£ 1,460	£ 1,474	£ 1,487	£ 1,501	£ 1,515
Band E	£ 1,809.62	£ 1,828	£ 1,846	£ 1,864	£ 1,869	£ 1,882	£ 1,900	£ 1,918	£ 1,936	£ 1,954	£ 1,972	£ 1,991
Band F	£ 2,238.11	£ 2,260	£ 2,283	£ 2,305	£ 2,312	£ 2,328	£ 2,350	£ 2,372	£ 2,395	£ 2,417	£ 2,440	£ 2,462
Band G	£ 2,697.21	£ 2,724	£ 2,751	£ 2,778	£ 2,786	£ 2,805	£ 2,832	£ 2,859	£ 2,886	£ 2,913	£ 2,940	£ 2,967
Band H	£ 3,374.39	£ 3,408	£ 3,442	£ 3,476	£ 3,486	£ 3,509	£ 3,543	£ 3,577	£ 3,611	£ 3,644	£ 3,678	£ 3,712

*Note: Figures exclude water supply and waste water collection charges collected on behalf of Scottish Water*

Council Tax	2021/22	Estimated Additional Income Collected										
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Collectable	123,899	1,239	2,478	3,717	4,089	4,956	6,195	7,434	8,673	9,912	11,151	12,390
Extra Collectable above 3.3%		(2,850)	(1,611)	(372)	-	867	2,106	3,345	4,584	5,823	7,062	8,301

- 3.64 The decision to set Council Tax is part of the budget setting process and is required as part of considering this report.

## **Service Income**

### Specific Grants and Recharges

- 3.65 The council receives a significant amount of funding during the year from specific grants (for example DWP funding for Housing Benefits and funding from the Scottish Government for Early Learning and Childcare and Pupil Equity Funds) and recharges other Council accounts for work done (for example to the Housing Revenue Account and Capital Programme).
- 3.66 The income from these programmes of work and specific activities is reviewed regularly and takes account of changes that are expected when planning the budget. The significance of a reduction in specific grant funding for ELC Expansion has already been stated above.

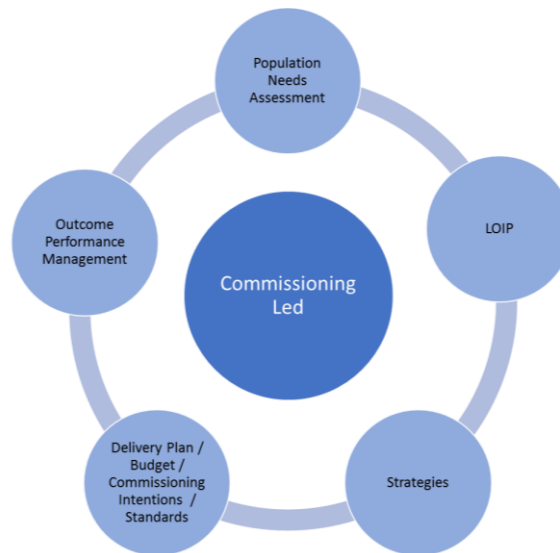
### Fees and Charges

- 3.67 Fees and charges raised locally enable the Council to fund some of the services it provides. Clearly, the impact of Covid has had a long-lasting and significant impact on the levels of income that the Council has received during 2020/21 and 2021/22 and the MTFs takes account of a slower return to pre-pandemic levels than had been first assumed.
- 3.68 Through the MTFs and building the budget for 2022/23 care has been taken to consider areas where income is expected to take time to recover after the Covid restrictions are lifted. These include car parking, planning and building fees, events, energy and entertainment.
- 3.69 The proposals in the draft budget for additional income will underpin income levels going forward and reflect the expectations of services in designing their services. As a vital component of the budget, fees and charges have been given significant attention when preparing the redesign work. The proposed changes to prices are included in the schedule of fees and charges at Appendix 9.

## **BALANCING THE BUDGET**

### **Our Commissioning Led Approach to Financial Planning 2022/23**

- 3.70 The Council's approved strategic commissioning approach provides the basis for the development of the Council's planning and budgeting. Strategic commissioning includes assessing and forecasting needs; linking investment to agreed outcomes; considering options; planning the nature, range and quality of future services; and putting these services in place. For Aberdeen City Council, this is reflected in the key elements of a commissioning led approach to planning and budgeting, shown in the figure below.



3.71 Adopting this commissioning led cycle ensures that:

- agreed outcomes, and the strategies for delivering those outcomes, are addressing the needs of the city; (Population Needs Assessment (**PNA**), Local Outcome Improvement Plan (**LOIP**), **Strategy Suite**)
- annual planning and commissioning intentions focus on implementing our strategic priorities; (**Council Delivery Plan, Commissioning Intentions**)
- the agreed levels of service to be delivered are affordable and reflect the demand for those services; (**Service Standards**)
- a balanced budget is set which aligns to those commissioning intentions and service standards (**Budget**)

3.72 This report provides the culmination of the annual Commissioning cycle with the reporting of the Commissioning Intentions (Appendix 11), Services Standards (Appendix 12) and the Financial Model and budget redesign (Appendix 7).

### **Data Led Analysis of Services and Service Design**

3.73 In line with the strategic commissioning approach, the 2022/23 planning and budgeting process began in early 2021/22 with a comprehensive review of a statutory duties and strategic commitments, including both UK and Scottish Government commitments as well as local strategic priorities. Officers also undertook a data led, service by service analysis of service demand; workforce; digital transformation; contracts; assets and fees & charges.

3.74 A consistent approach has been taken to the analysis of demand. This approach has provided a model to classify the nature of demand; gain a greater understanding of how to meet that demand differently; and reduce future demand upon services. This will result in a shift away from responsive “negative” demand to planned “value” demand.

3.75 The following classification of demand has been adopted:

- *Value Demand* - these are the demands we want customers to place on the system. These prevent future negative demand through earlier intervention.
- *Negative Demand* - turning off negative demand has an immediate impact on our capacity and resources. Negative demand is further sub-divided into:

<i>Failure demand</i>	- Demand from service failure or poor design
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<i>Avoidable demand</i>	- Demand arising from behaviours that can be influenced or changed
<i>Excess demand</i>	- Providing a higher level of service than is needed to meet demand
<i>Co-dependent demand</i>	- Demand unintentionally reinforced and entrenched by service dependence
<i>Preventable demand</i>	- Demand which could have been prevented by intervening earlier

3.76 Each of the Council's services have undertaken this demand analysis and it has underpinned the design of services for 2022/23 and beyond, which will reduce negative demand and include the identification of related options for reducing cost to ensure the services to be commissioned and the level/standards at which these are delivered are affordable within available resources.

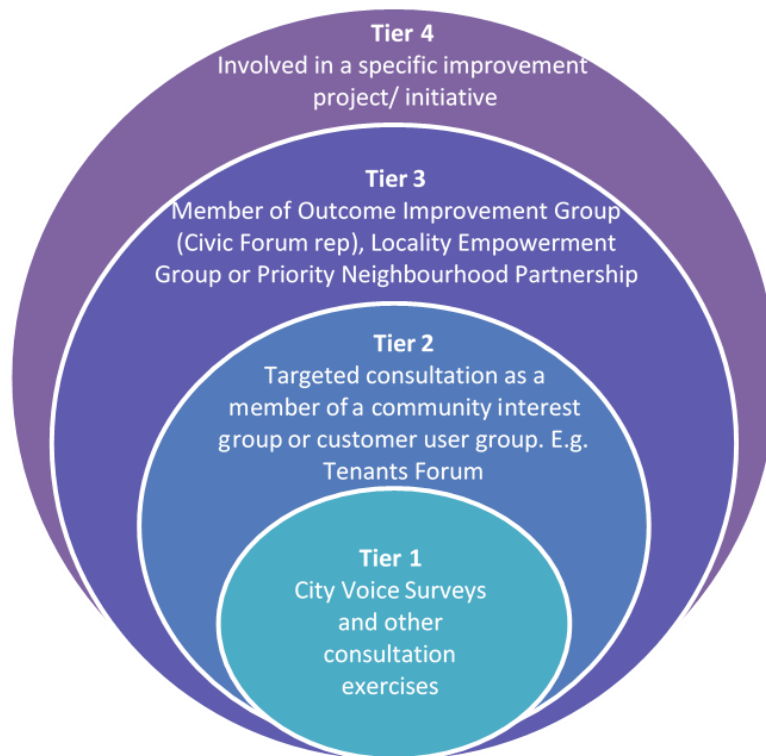
3.77 Where service redesign has resulted in a need to amend existing staff structures, within the Council's functional structure, these will be developed into business cases for consultation both informally and formally according to our usual procedures and in accordance with our legal obligations to consult with staff and trade unions, which will continue following the Council meeting.

### **Community Engagement**

3.78 Wide community engagement was carried out as part of the Community Planning Partnerships refresh of both the LOIP and Locality Plans during 2021/22. This included use of a 'values simulator' software service to assist with community participation in order to gauge the attitude, priorities and values within the communities of Aberdeen City and across the City, more generally. Its use complemented the more targeted community engagement undertaken, primarily with the Locality Empowerment Groups and Priority Neighbourhood Partnerships. All of which informed the priorities within the refreshed Local Outcome Improvement Plan, Locality Plans and underpinning partner strategic plans.

3.79 The Partnership's [Engagement, Participation and Empowerment Strategy](#) is a demonstration of the united commitment to working with communities to tackle the issues that matter most to them. Various means have been adopted to ensure people's views are listened to and decisions about priorities to be included in the LOIP are informed by people's feedback.

3.80 The diagram below depicts four levels of community engagement and the main opportunities for people to be involved in priority setting for the Community Planning Partnership fall into one of these. The tiers range from a universal, public opportunity to feedback at Tier 1, to working directly with people to tackle specific issues and influence change at Tier 4.



- 3.81 Recognising the challenges faced by people living in some areas of the City and harder to reach groups to engage and participate in community planning, we have made a significant investment in community capacity building to encourage people to get involved at Tier 2 to 4. Of note is our support to Priority Neighbourhood Partnerships and our Locality Empowerment Groups to engage on a wide range of issues impacting their area. The groups have a remit to represent, connect and empower local people and community groups across all areas of the City. This involves thinking of ways of reaching community members who face barriers because of their race, gender, age, disability, sexual orientation, religion or belief.
- 3.82 The use of a citizen values simulator software enabled us to gauge the attitude, priorities and values of the people and communities of Aberdeen City and across the City, more generally. The results of the exercise provide a useful cross check with feedback from those people and groups actively engaged against broader public opinion. Post code analysis enables us to do the same at a locality and neighbourhood level, providing invaluable data at a local level.
- 3.83 An important aspect of community engagement is the use of Participatory Budgeting techniques, allowing communities a stronger influence over how funding can be used to benefit local communities. In April 2021 COSLA and the Scottish Government jointly agreed an amendment to the Community Choices Framework Agreement to reflect the impact of the COVID-19 pandemic on meeting the 1% Participatory Budgeting (PB) agreement in the 2021 financial year. In 2022/23 the allocation of 1% of revenue funding to Participatory Budgeting techniques will amount to £3.6m (target £3.9m), and will include Fairer Aberdeen Funding, environmental improvements and scope to engage residents and communities in capital projects such as the Council House building programme and City Centre Masterplan.

#### **Strategic Resource Allocation**

- 3.84 The community engagement work described above provides an important insight into the priorities of our communities. This is further supplemented through the



refresh of the Population Need assessment and the insights we have gathered in terms of the harm created by Covid-19 through our socio-economic rescue-plan. The refreshed LOIP, a 10-year plan, will inform the work undertaken to produce the council's commissioning intentions for 2023/24 as well as the refresh of council's own long term strategies.

- 3.85 The Scottish Government, in 2021, issued a requirement on councils to develop a route map for their administrative area to achieve net zero by 2045. This was considered by the Council at its meeting on 28 February 2022 (COM/22/054). Building on the Net Zero Vision, Net Zero Aberdeen presents the Routemap which sets the pathway for a net zero city by 2045, a journey supported by six themed strategies. Reducing global emissions is essential to limit the impact of climate change, and addressing the scale and urgency of change, net zero is a key commitment for many. In Aberdeen, these drivers have brought a wide range of organisations together, to work collaboratively and co-create Net Zero Aberdeen, with a focus on the city, it's challenges, expertise, innovations and ambitions. Recognising the need for a collaborative approach across sectors, the Net Zero Aberdeen Routemap was driven forward and directed by a Net Zero Leadership Board. The supporting strategies, covering Mobility, Buildings and Heat, Circular Economy, Energy Supply, Natural Environment and Empowerment were each developed by a different theme leader within the Net Zero Delivery Unit. This Routemap will be a vital reference point for resource allocation and prioritisation in the Council's medium term financial planning activities.
- 3.86 The Scottish Government consulted on a National Care Service in 2021 which was wide ranging in terms of the potential scope for change in the care sector. This has the potential to significantly impact local services, Council duties and obligations and funding. The emphasis again in the 2022/23 Local Government Settlement has been Care, in particular adult social care and health. The allocation of resources is undermined locally where terms and conditions are placed on how the Council can allocate its resources, and with a change of the magnitude suggested by the consultation, care will have to be taken in making resource allocation decisions, with modelling needed to consider the scenarios.

### **Summary**

- 3.87 The effect of our recommissioning is represented by the list of changes that amount to a total of £30.9m, shown in Appendix 8. This list is designed to assist in understanding the impact of redesign and where the Council proposes to achieve cost reductions and income generation to balance the budget.
- 3.88 The impact will be felt across the Council, with an expected reduction in workforce through voluntary policies and natural turnover; a change to the level and type of services the Council procures and commissions, as well as increasing charges for services, which will impact on individual and business customers.
- 3.89 The Council must decide how it balances the budget, having taken into account the information contained in this report and in the scrutiny that they have done prior to the Council meeting. If the entirety of recommissioning options were accepted as presented in this report, plus an increase in the rate of Council Tax, then a balance budget would be achieved. The Council must set a rate of Council Tax for financial year 2022/23, with effect from 1 April 2022.

### **Referrals from Committee – items not included in the financial model**

- 3.90 Appendix 10 provides details of the items that have not been included in the financial model for 2022/23 revenue figures. These items relate to revenue expenditure and may be based on the impact of capital projects and transactions. Should the Council wish to accept all or some of these items into the 2022/23 budget, identification of further savings options will be required to allow this, such that the overall budget position is balanced, as is required by statute. This now includes the decision by Council on 28 February 2022 to refer the matter of Easter and Summer of Play programmes to the Budget Process.

## **GROUP ACCOUNTS**

### **Subsidiaries, Joint Ventures and Associates**

- 3.91 The Council has several subsidiaries, joint ventures and associates as defined by accounting requirements. Whilst these organisations are responsible for service delivery, the Council provides significant funding to them and therefore remains responsible for ensuring that public funds are used properly and demonstrate best value. In addition to funding provided by the council, these arm length bodies also have discretionary and statutory fees and charges as a further source of income.

### **Covid-19 Impact**

- 3.92 In 2021/22 the impact of the Covid-19 pandemic on the group entities continued, with a range of sporting and recreation facilities closing for different periods throughout the year, and full opening only recently having been achieved. In the Health and Social Care sector continued to experience increased costs and demand pressures as well as the challenges of staffing facilities and services with restrictions and isolation rules changing. The organisations have had to rely on continued funding by the Council and government funding schemes, such as Job Retention (furlough) in the first half of the year, and specific targeted funding through the IJB mobilisation plans.
- 3.93 Despite the continuing challenges, that expect to continue to play a part in 2022/23, considering the Council's financial settlement for 2022/23 the approach to building the budget for 2022/23 has been to apply a 5% reduction to 2021/22 funding levels. It should be noted that this means 2.5% reduction for Aberdeen Sports Village as funding is matched across the two partners.
- 3.94 The Integration Joint Board and Valuation Joint Board are different, substantially funded by public funds, the Finance Settlement has now confirmed that a condition of the grant is that funding will be passported through to the Integration Joint Board, this is similar to previous years. The Valuation Joint Board has the power to requisition funding from the Council and the budget proposed by the Board shows a small increase.
- 3.95 Whilst the aforementioned describes the impact of Covid-19 on all parts of the Council group structure, it is important to acknowledge that all our partners within the Council group have played a significant part in supporting both the Council to discharge its statutory duties as a first responder as well as supporting the efforts of other first responders. It is also essential to say that this includes supporting the City response to Storms Arwen, Malik and Corrie that have hit the North-East of Scotland, and east coast over the Winter period.

## Summary

- 3.96 The table below provides details of the funding levels currently included in the 2021/22 budget model for these organisations, along with the values as presented by officers as part of the redesign plans for 2022/23. The Strategic Commissioning Committee instruction (COM/20/118) in relation to the operational delivery models for the Tier 1 ALEO's is included within the Councils overall transformation blueprint as part of the commissioned services redesign programme. The programme will include work with the Group Entities and other Tier 1 ALEOs on the structures to design and implement changes to how they do business, with the aim to progress them being more self-sufficient, reducing the financial support from the Council. As part of this initial work, we will consider the potential for cross-working and shared resources across all Group and Tier 1 ALEO structures. The notes, below the table, describe the recommended actions in relation to the Group entities, if relevant:

<b>Organisation</b>	<b>Funding 2021/22 £m</b>	<b>Budget Proposal 2022/23 £m</b>	<b>Funding Change from 2021/22 £m</b>	<b>Funding Change from 2021/22 %</b>
Bon Accord Care (S)	30.304	See note below		
Sport Aberdeen (S)	5.476	5.202	(0.274)	(5.0%)
Aberdeen Sport Village (JV) – (contract year 1 Aug to 31 Jul)	0.845	0.824	(0.021)	(2.5%)
Integration Joint Board (JV)	95.184	114.562	19.378	20.4%
Grampian Valuation Joint Board (A)	1.890	1.858	(0.032)	(1.7%)
(S) = Subsidiary; (JV) = Joint Venture; (A) = Associate				

### Bon Accord Care

- 3.97 Bon Accord Care is a subsidiary and is funded through the IJB, which is required to indicate the value of the services to be provided through the contract and is therefore included for information only. The impact of any option to change IJB funding, see below, may have a direct impact on Bon Accord Care.

### Sport Aberdeen

- 3.98 Sport Aberdeen is a subsidiary and currently receives funding for the provision of a range of leisure facilities across the city. The proposals set out in this report reduce the value of funding that would be awarded to the organisation. The ultimate decision on how that funding reduction was implemented would be taken by the Sport Aberdeen Board.

### Aberdeen Sports Village

- 3.99 The Sports Village is a joint venture with the University of Aberdeen, and this means that proposals by the Council will be matched by the University, and vice versa. Proposals are discussed and worked up together, the Head of Commercial and Procurement and Chief Officer – Finance are members of the quarterly ASV Joint Partnership meetings. The ASV Board is responsible for making changes to address agreed funding levels.
- 3.100 The partnership agreement refers to funding being approved on the basis of the Contract Year – which is different from the Council's financial year. The impact on

the Council of any change is part-year for the forthcoming financial year, and this is factored into the budget proposals.

Aberdeen City Health and Social Care Partnership Integration Joint Board (IJB)

3.101 The IJB is a joint venture and is funded by both the Council and NHS Grampian (NHSG).

3.102 The IJB then directs the Council and NHSG to provide adult social care and health services for which it pays the Council and NHSG as appropriate. The costs the Council incurs in providing those services are included within the relevant services budget. This can be summarised as follows:

	<b>Budget Model 2022/23 Net £m</b>	<b>Value of savings Options £m</b>	<b>Potential 2022/23 Funding Position £m</b>
Estimated net cost of services provided by Aberdeen City Council	153.3	(3.0)	150.3
Less: Allocation to the IJB by the Council	(95.2)	0	(95.2)
Less: Changes per 2022/23 Council Financial Settlement affecting allocations to the IJB	(19.4)	0	(19.4)
<b>Additional Cost to the IJB:</b>	<b>38.7</b>	<b>0</b>	<b>35.7</b>
<b>Represented by:</b>			
Funding routed through the IJB via the NHSG financial settlement	35.7	0	35.7
Est. impact of demand, pay and price inflation, to be met by savings to be agreed by IJB	3.0	0	0

3.103 The IJB meets on the 10 March 2022 to consider its 2022/23 financial position and medium-term financial strategy.

3.104 Additional funding included in the Council's General Revenue Grant for 2022/23 that must be paid over to the IJB amounts to £19.378m for continued delivery of the real living wage and increases in adult social care pay, up to £10.50 per hour, new investment in care at home and interim care funding is also added to funding to continue to support the implementation of the Carers Act.

3.105 Further announcements by the Scottish Government have been made in relation to £22m to support the social care workforce. It is expected that funding distribution decisions will be made in the future but will be subject to the same conditions.

3.106 The Council will be complying with the terms of the Financial Settlement by passporting the funding to the IJB.

Grampian Valuation Joint Board (GVJB)

3.107 The Council's funding contribution in the MTFs had been prepared based on the Budget Strategy of the (GVJ) Board. The GVJB met on 4 February 2022 and approved its budget and therefore confirmed the requisition amount for 2022/23. The requisition is based on its approved budget using the agreed share per constituent council (Aberdeen City 39%).

3.108 The value requisitioned by the GVJB amounts to £1.858m for 2022/23.

### **Arm's Length External Organisations (ALEO)**

3.109 In addition to the Group companies, the Council recognises that it has a close relationship with organisations to which it provides significant levels of funding. It carries out increased scrutiny of ALEOs' risk, financial and governance arrangements, through the ALEO Assurance Hub. In addition, ALEOs must report annually to the Strategic Commissioning Committee so that their performance can be scrutinised.

### **Covid-19 Impact**

3.110 Similar to the Group Entities, the impact of the Covid-19 pandemic on ALEOs has been enormous, with all culture venues being closed in the first half of the year, reliance on continued funding by the Council, sponsors and government funding schemes, such as Job Retention (furlough) have been vital to maintaining continuity and planning for re-opening.

3.111 Re-opening began in September 2021 as restrictions eased, but a retightening of the rules meant that post-Christmas there were closures again although in February 2022 venues were open to audiences.

3.112 Despite the continuing challenges, that expect to continue to play a part in 2022/23, considering the Council's financial settlement for 2022/23 the approach to building the budget for 2022/23 has been to apply a 5% reduction to 2021/22 funding levels.

### **Aberdeen Performing Arts**

3.113 Aberdeen Performing Arts is classified as an ALEO from a Council perspective, although it fails the accounting tests in terms of being a Group Entity.

3.114 The basis for this is the value of funding that the Council contributes to the organisation on an annual basis. The proposals set out in this report reduce the value of funding that would be awarded to the organisation. The ultimate decision on how that funding reduction would be implemented would be taken by the Board.

<b>Organisation</b>	<b>Funding 2021/22 £m</b>	<b>Budget Proposal 2022/23 £m</b>	<b>Funding Change from 2021/22 £m</b>	<b>Funding Change from 2021/22 %</b>
Aberdeen Performing Arts (ALEO) (including Granite Noir and True North event funding)	0.985	0.936	(49)	(5.0%)

## **CAPITAL INVESTMENT – GENERAL FUND**

### **Capital Income – Scottish Government Grant**

3.115 The level of General Capital Grant provided by the Scottish Government is advised through the Local Government Finance Settlement 2022-23 (Finance Circular No. 9/2021) dated 20 December 2021. The General Capital Grant for 2021 is £18.5m, with a further £1.0m of specific grant available for Cycling, Walking and Safer Routes (CWSR) projects.

3.116 The core capital grant for 2022/23 is a reduction of £0.06m (0.03%) on a like for like basis with 2021/22.

- 3.117 This is in line with the intent expressed by the Cabinet Secretary for Finance in a letter to the Cosla President, dated 4 February 2021, which indicated that flat cash is the working assumption for future years for Local Government.
- 3.118 It is reasonable to expect the change in grant for a single year to be managed through cashflow and the timing of borrowing however further reductions in the grant, or flat cash settlements, increases the overall capital borrowing requirement, which is a key factor in applying the Prudential Code to the Council's capital planning. This also puts pressure on the position that has been outlined to Moody's in relation to the management of total debt for the General Fund, where they expect debt to stabilise and begin to fall in future years.

#### **Capital Income – Borrowing**

- 3.119 Budgeted capital expenditure over the next five years is £623.2 (including forecast reprofiling of unspent budgets in 2021/22), with associated funding, excluding borrowing, of £235.0m. The balance of £388.2m will require to be funded by borrowing, following a significant reduction in borrowing requirement in the last two years, due to the delays arising from the pandemic.
- 3.120 Borrowing commits the Council to ongoing revenue costs over many years. It is therefore essential that borrowing is affordable and sustainable in future. The borrowing levels are in line with previous projections and continue to reflect the position described to Moody's, the credit rating agency.

#### **Capital Income – Developer Obligations**

- 3.121 The construction industry, along with many other parts of the economy, have seen a severe impact on their cash flow and sales figures during the last 12 months. Many of these developments obtain planning permission on the basis of making specific developer contributions to new or improved infrastructure (among other things).
- 3.122 These developer contributions in some instances lead to a capital project being included within the Council's capital programme on the basis of receiving income (i.e., the developer contribution) and the net cost being met from the Council.
- 3.123 As noted last year, it is clear that these obligations are beginning to prove challenging for developers and officers have started to receive correspondence for meetings with developers to discuss these challenges. The matter of developer obligations continues to be identified as a contingent liability due to the potential additional cost that could arise from non-payment.

#### **Capital Programme**

- 3.124 The Council has been delivering against the 2016 Strategic Infrastructure Plan over recent years and it is all but complete, with most projects either underway or already completed. Appendix 4 shows the current projected profile of spend based on where various contracts are and expenditure patterns. The Council, through the approval of the Net Zero Vision and associated Infrastructure Plan in May 2020, now has vital documents to assist the development of its capital programme, building on the examples of Energy from Waste project and fleet replacement with alternative fuel vehicles. Other pilot projects such as DORIC will help to provide future evidence for the development and refinement of the capital programme.
- 3.125 Approved in the 2021/22 capital programme was an additional £150m, over 5 years to support city centre and beach masterplans, work has advance significantly

during the year with additional funding of £20m being levered in from a Levelling Up bid that was successfully awarded in October 2021. This will be used to invest in the city centre and market redevelopment.

- 3.126 It has been clearly and consistently reported to Capital Programme Committee and City Growth and Resources Committee during the year that the cost of capital projects is rising, at a rate that's not been seen for many years. This resulted in an instruction to the Chief Officer – Finance to recommend a sum to be included as a contingency in the Capital Programme. This being beyond the normal optimism bias that is included in project estimates, to take account of the exceptional circumstances that the Council and whole market is experiencing. It is perhaps even more important, with the recent invasion of Ukraine, that greater global uncertainty may increase costs further. The recommendation is that £60m should be added across the next 5 years, taking account of the works that are ongoing and projects that are in the process of being subjected to tendering and financial close negotiations. It is not possible to estimate how much of this contingency will actually be required over that period.
- 3.127 In preparing the General Fund Capital Programme for 2022/23 to 2026/27 (Appendix 4) due cognisance has been given to the ongoing revenue pressures within the Council to set a balanced budget. Primarily, this means that new capital investment adds further revenue pressure into the system and with the capital grant allocated to the Council in the financial settlement for 2022/23 this report describes the current programme and items referred to the budget process.
- 3.128 Appendix 4 is broken down into different sections for ease of understanding. It should be noted that in general expenditure is committed for most projects, with the following exceptions:
- Partially Legally Committed Projects. These are projects where part of the budget has been legally committed but there would be scope to potentially reduce expenditure.
  - Projects with an indicative Budget. These are projects where a legal commitment has not yet been entered into, nor has the procurement exercise been completed. Hence, the figures provided are indicative until such time as market pricing has been received.
- 3.129 The profiling of the capital programme has been updated to reflect the latest information, including forecasting the impact of underspending in 2021/22 on 2022/23 to 2026/27.

#### **Referrals to the Budget Process**

- 3.130 A number of capital projects have been brought forward for consideration as part of the budget setting process, with a range of instructions given by Committees during the year. The detail on all of these has been provided to Councillors in relation to the business cases and justification for considering them as part of the future capital investment in the city. A summary of the projects is included at Appendix 5.

#### **Additional Capital Investment**

- 3.131 Appendix 3 also includes details of capital investment that the Council can consider in setting their budgets for 2022/23.

### **Capital Investment Planning**

- 3.132 The Council's Capital Investment Plan sits central to the delivery of future planning activities and must adapt to the changing environment in which the Council operates. This includes ensuring that the stretch targets in the Local Outcomes Improvement Plan and Council strategic framework are supported appropriately.
- 3.133 Increasingly prominent is the investment required to move forward with commitments to Net Zero, and as stated above the Council considered the Aberdeen Routemap (COM/22/054) at its meeting on 28 February 2022 and agreed the way forward to contribute to the ambition needed. Financing the ambition will come from a range of sources, not just the Council's capital programmes.
- 3.134 Evidence of the Council's commitment can be seen from the City Growth and Resources Committee having considered a report (COM/22/031) on 3 February 2022, in relation to an Aberdeen Hydrogen Hub Strategic Partnership with bp, and approved the investment in the partnership, subject to this budget setting process. A decision on funding this will be required by the Council.
- 3.135 Different reasons for capital investment by the Council are traditionally in relation to the Institution and the Place, increasingly however the local ambition and objective needs the support and drive of others and therefore investment by others is vital to the future of our city. In making capital decisions careful consideration should be given to the Financial Resilience Framework and Prudential Indicators as this provides current and forward looking data that aids understanding of the implications of capital investment.

### **Why investment is needed**

- 3.136 *Institutional Investment* - this relates to core infrastructure the Council provides for consumption in a traditional sense. The need to provide schools, depots, vehicles, and so on, enables the institutional delivery of services and this demand will likely change over the long term but short term will still need to be regularly reviewed. As the mode and model of delivery changes this impacts on the assets required and needs to be factored into long term strategic planning. Due regard should also be given to recent experience and the impact of the Covid-19 pandemic.
- 3.137 *Place Investment* – this relates to the facilities and infrastructure that the city itself needs to be attractive to living, working and visiting the city. Roads, event spaces, cultural facilities, industrial sites and parks for example, all play a significant role in shaping and making the city. The impact of the pandemic has been severe in terms of how people access business (from retail to hospitality to the workplace) and this is visibly evident within the city centre. The Council will therefore need to make choices around re-imagining the city and beach localities for example.
- 3.138 *Partnership Investment* – making a shift to achieve the ambitious plans the City Region area has means that investment from various sources will be required to deliver the benefits. The value that can be achieved through a range of options is where the likes of shared objectives and vision can be achieved, take the Net Zero vision for example. At the foundation, projects like the Energy from Waste development would demonstrate what is possible with Council funds. Expand on that ambition and achieving carbon reduction targets for the city will take the investment of many. This shares risk and scales up the possibilities.



### **Where the funding comes from**

- 3.139 Funding has traditionally fallen to the Council, through borrowing, the general capital grant, accessing specific capital grant funding, developer obligations and capital receipts. The need for providing the conditions to lever in partner funding, private investors will be essential to address the scale and speed at which ambition is to be achieved.
- 3.140 How the city benefits from these sources of funding and the potential for generating a positive impact on revenue may require the Council to consider the need to deliver services in different ways.
- 3.141 Institutional investment will expect to access funding through the adopted business case methodology, working through to a full business case to capture financial and non-financial benefits and determine the relative affordability. These are likely to be financed through equally traditional routes of grant funding or long-term borrowing instruments such as Public Works Loans Board (PWLB).
- 3.142 Place investment should similarly be measured and evaluated on the same basis, with the discipline of a business case. There is more likelihood that this investment proposal will involve others and may bring complexity of various funding streams – such as Shared Prosperity funding or specific funding streams from Scottish Government. Benefit has already been derived from bidding for Levelling Up funding and the Council will look to apply for other funding where it can.
- 3.143 Partnership investment can be expected to be delivered on terms that are consistent with the parties involved. The Council in participating will look for the business case approach to be adopted and provide the appropriate governance and decision making points. Investment from private sources to meet the ambition of the city and the wider region will have their own parameters and due diligence to address. The investor criteria may include returns by way of growth or income, but it is clear that all will have a view about risk management and the tolerance and appetite for taking or transferring risk.
- 3.144 To do this will take clarity on the investment proposals that are available. The Council is seeking to do this with the Chief Officer – City Growth due to report back on the methodology and approach to bring investor ready proposals to the market, including resource implications and timescales for developing the opportunities described within the various economic and infrastructure strategies.

### **Conclusion**

- 3.145 The conclusion, through this approach, there will remain robust and appropriate governance of the decisions to invest in city infrastructure by the Council, and facilitate the investment prospects for matching investment interest in city ambition, particularly for example in relation to action required on the Net Zero Vision and Infrastructure Plan.

## **IMPACT ON BALANCE SHEET OF BUDGET DECISIONS**

- 3.146 The result of the decisions Council takes in setting its budget will be reflected in the Council's Balance and Reserves, and the proposals in this report reflect the following impact on the Council.

<b>Use of Reserves &amp; Funds</b>	<b>Projected Balance at 31 March 2022 £m</b>	<b>Assumed (Use)/ Contribution to Reserves 2022/23 £m</b>	<b>Projected Balance at 31 March 2023 £m</b>
<i>General Fund:</i>			
Earmarked	27.359	(4.590)	22.769
Uncommitted	12.519	0.000	12.519
<i>Housing Revenue Account:</i>			
Earmarked	2.283	(0.158)	2.125
Uncommitted	11.782	0.500	12.282
<i>Statutory Funds:</i>			
Capital Fund	9.528	0.000	9.528
Insurance Fund	2.291	0.250	2.541
City Improvement Fund	0.331	0.005	0.336
Lord Byron Fund	0.005	0.000	0.005
<i>Restricted Funds:</i>			
Capital Grants & Receipts Unapplied	1.582	(1.582)	0.000
<b>Total</b>	<b>67.680</b>	<b>(5.575)</b>	<b>62.105</b>

3.147 It should be noted that the projected balances in Reserves at 31 March 2022 are estimated based on the Quarter 3 financial reporting and are subject to change once all actual transactions have been recorded in the draft Annual Accounts.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 The forecast level of useable reserves that the Council has at 31 March 2022 means that reserves will, in the context of contingent liabilities and the approved Reserves Policy, remain relatively low. Around £5m of earmarked sums to support the Council from the ongoing implications and risks of the pandemic are forecast to be carried into 2022/23.
- 4.2 Savings options totalling £30.9m, plus the flexibility to increase Council Tax, are presented for consideration by Council. One-off options to make use of fiscal flexibilities permitted by the Scottish Government are available, and in 2022/23 the value of debt deferral is £7.5m – the consequence being the repayment of that sum over no more than the following 20 years (£375k plus interest per annum).
- 4.3 Council must approve savings options to a level whereby at least a balanced budget is achieved, £32.2m, and take account of the revised Reserves Policy that recommends no less than £12m as an uncommitted General Fund Reserve at the end of the financial year.
- 4.4 The Council is encouraged to consider increasing the value of revenue contingencies, such is the financial uncertainty around the pandemic, inflation and energy and pay pressure in particular. To do so would further mitigate the potential impact of the current operating environment and improve sustainability.
- 4.5 Approval of the redesign of services and cost reduction above this level will have a positive impact on the Council by, a) providing a buffer to mitigate the risk of further cost/demand pressures materialising; b) providing a buffer to mitigate the risk of savings options not progressing as expected; and c) assuming a) and b) do

not materialise, by enabling the level of resources held to be increased which will improve overall financial sustainability.

## **5. LEGAL IMPLICATIONS**

- 5.1 The Local Government Finance Act 1992 requires the Council to set its Council Tax for the next financial year before 11 March each year.
- 5.2 The Act provides that the Council Tax amount set shall be sufficient to meet total estimated expenditure. This means that having taking account of expenditure, agreed savings and income from other sources, the level of Council Tax must ensure that a balanced budget is set by the Council.
- 5.3 The Council has a legal obligation to comply with the public sector equality duty and the Fairer Scotland duty. Chief Officers have completed screening forms against the options set out in this report and completed Integrated Impact Assessments were required. These are available in Section 9 and the Council must have due regard to the content of these documents as part of the decision making process.

## **6. MANAGEMENT OF RISK**

- 6.1 The Audit Risk and Scrutiny Committee approved the revised Risk Appetite Statement (RAS) on 22 February 2022 (GOV/22/036). The RAS sets out how the Council will balance its risks and opportunities in pursuit of delivering the outcomes set out within the Local Outcome Improvement Plan and associated strategies.
- 6.2 The purpose of this report is to set a revenue and capital budget. In doing so, the Council should have regard to the approved RAS. In particular, it is worth noting that:
  - 6.2.1 The Council is averse to risks associated with impairing financial stewardship, internal controls, and financial sustainability.
  - 6.2.2 The Council has an open appetite for short-term risks that support financial performance and mitigate negative external factors.
  - 6.2.3 The Council has an open appetite for longer term capital and financial investments provided that the risks are well managed and demonstrate realisable future benefits for delivering the Council's outcomes and commissioning intentions.
- 6.3 The recommendations and risk assessment carried out below are considered to be consistent with the Council's RAS. Should Council be minded to depart from the recommendations, it is important in doing so that the Council considers the potential impacts across the organisation and on the Council's pursuit of strategic outcomes.

	<b>Risk</b>	<b>Low (L), Medium (M), High (H)</b>	<b>Mitigation</b>
<b>Strategic</b>	Use of the General Fund fails to achieve intended strategic objectives.	L	Commissioning approach and service design built around stretch outcomes in the LOIP.
<b>Compliance</b>	Not setting a balanced budget and setting council tax.  Not approving recommendations results in non-compliance with law or policy.	L  L	Scrutiny and checking of budget proposals by S.95 Officer, reports and budget pack prepared with appropriate detail to enable and support decision making.  Commissioning approach provides information on the implications of savings, linked to the service standards and commissioning intentions enables officers to highlight any changes that may be affected. Any changes to recommendations are considered in light of responses to questions and scrutiny by councillors and agreed by Officers as competent.
<b>Operational</b>	Pandemic restrictions undermine budget assumptions on service delivery.	H	Scottish Government funding announced to date for 2021/22 to take account of changes experienced in year.
<b>Financial</b>	Assumptions and judgements used for budget model and options are very different from what the Council faces in 2022/23 leading to additional action having to be taken during the year.  Poor financial sustainability	M  M	The latest and most up to date information has been used to calculate and shape the budget model and will continue to be refined in advance of the Budget Report being prepared.  Process in place for regular updates of

	<p>Poor management of large and complex budgets.</p> <p>Non-delivery of savings options leading to overspends against budget.</p> <p>Variation in tender prices for capital projects, following procurement against the costs assumed at the time of project approval.</p> <p>Insufficient capital receipts to pay for voluntary severance costs that are assumed.</p> <p>Anticipated income from planning agreements (e.g. section 75 agreements) are not received due to impact of Covid-19 on economy meaning less resource available for infrastructure interventions.</p>	<p>L</p> <p>M</p> <p>M</p> <p>L</p> <p>M</p>	<p>medium-term financial position including recognition of potential future liabilities.</p> <p>Regular review of financial information by services and corporately by Elected Members.</p> <p>Savings options are assessed in terms of deliverability.</p> <p>Use of suitably qualified staff or external body to quantify and review indicative project costs.</p> <p>Projected year end value of Capital Fund, and anticipated capital receipts is regularly reviewed. Affordability requires to be revisited as the extent of capital receipts and values are uncertain in the current climate.</p> <p>Regular monitoring of financial data.</p>
<b>Legal</b>	<p>The statutory duty to set Council Tax and a balanced budget is not achieved.</p> <p>Non-compliance with public sector equality</p>	<p>L</p> <p>L</p>	<p>Suitable recommendations are contained within this report to adequately prepare to comply with this duty.</p> <p>Following a screening process, Integrated Impact</p>

	<p>and Fairer Scotland duties.</p> <p>Failure to deliver statutory services during the financial year</p>	M	<p>Assessments have been carried out where required. More detailed work will continue where required. Members should have due regard to the screening forms and impact assessments referenced in Section 9.</p> <p>The recommendations outlined in the report are designed to ensure the Council complies with its statutory obligations in line with the RAS. It is acknowledged however, that given the uncertainty posed by the pandemic, there is greater likelihood that there may be an impact on the Council's ability to deliver statutory services due to circumstances beyond its control. In such circumstances, consideration will be given to any new and relevant laws and/or guidance published by UK and Scottish Governments and the matter will be reported to Council where appropriate.</p>
<b>Reputational</b>	<p>Failure to properly manage finances including the potential impact on the Council's credit rating.</p> <p>Focus on cuts may have a negative impact on citizens' view of service delivery</p>	<p>L</p> <p>M</p>	<p>Regular review of financial information by services, CMT and Elected Members throughout the financial year.</p> <p>Highlight positive changes achieved despite financial constraints.</p>
<b>Environment / Climate</b>	<p>Failure to recognise the local vision and national targets and to make choices that support the delivery of target.</p>	M	<p>Service redesign work will consider, where appropriate, the environmental impact of changes.</p>

## 7. OUTCOMES

<p><b>Local Outcome Improvement Plan Themes – In addition to our contribution to the multi agency improvement projects outlined in the refreshed LOIP, Aberdeen City council, as a single agency, makes a contribution through its activities to the LOIP outcomes.</b></p>	
	<p><b>Impact of Report</b></p>
<p><b>Prosperous Economy</b></p>	<p>The Council's commissioning cycle specifically joins the allocation of resources, through the approval of the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 11, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.</p>
<p><b>Prosperous People</b></p>	<p>The Council's commissioning cycle specifically joins the allocation of resources, through the approval of the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 11, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.</p>
<p><b>Prosperous Place</b></p>	<p>The Council's commissioning cycle specifically joins the allocation of resources, through the approval of the budget, with the intention to deliver on the LOIP. This is demonstrated in Appendix 11, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.</p>

## 8. IMPACT ASSESSMENTS

Assessment	Outcome
<p><b>Equality &amp; Human Rights</b></p>	<p>The Council must have due regard to protected characteristics under the Equality Act 2010. The budget proposals presented in this report have been subject to an impact assessment screening by the relevant Chief Officers. This enables officers to ensure proactive steps are taken to identify and mitigate any potential discrimination and violation of human rights and children's rights.</p> <p>The screening forms and Integrated Impact Assessments, where they have been required, are available through the link in Section 9.</p> <p>The Public Sector Equality Duty requires Local Authorities to produce a set of Equality Outcomes every 4 years. A new set of Equality Outcomes was considered by the Operational Delivery Committee on 11 March 2021. In addition, the LOIP was refreshed during 2021. A key theme running</p>

	through the LOIP is the tackling of inequalities in the community. The Equality Outcomes and LOIP should, through the planning cycle, help to drive the strategic allocation of resources against those activities which are most likely to have a positive impact on improving equality within the community.
<b>Data Protection Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	<p>The Fairer Scotland Duty places a legal responsibility on the Council to actively consider how inequalities of outcome, caused by socio-economic disadvantage, can be reduced. Budget proposals presented in this report have been subject to consideration of the Fairer Scotland Duty as part of impact assessment screening.</p> <p>The screening forms and Integrated Impact Assessments, where required, are available through the link in Section 9.</p>

## 9. BACKGROUND PAPERS

Scottish Government Finance Circulars  
 CIPFA "The Prudential Code for Capital Finance in Local Authorities  
 Equalities Impact Assessments & Screening –  
<https://committees.aberdeencity.gov.uk/ecCatDisplay.aspx?sch=doc&cat=14044>

## 10. APPENDICES

Appendix 1 – Projected Balance Sheet as at 31 March 2022  
 Appendix 2 – Financial Resilience Framework 2021  
 Appendix 3 – Prudential Indicators  
 Appendix 4 – General Fund Capital Programme 2021/22 to 2026/27  
 Appendix 5 – Capital items referred to the budget process  
 Appendix 6 – Reserves Policy 2022  
 Appendix 7 – Commissioning Led Approach and Service Redesign  
 Appendix 8 – Revenue savings included in Redesign  
 Appendix 9 – Fees and Charges proposals  
 Appendix 10 – Revenue items referred to the budget process  
 Appendix 11 – Commissioning Intentions  
 Appendix 12 – Service Standards  
 Appendix 13 – Contingent Liabilities  
 Appendix 14 – Medium-Term Financial Projection assumptions

## 11. REPORT AUTHOR CONTACT DETAILS

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