

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	24 August 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Medium Term Financial Strategy for the Council's General Fund, 2022
REPORT NUMBER	RES/22/172
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Jonathan Belford
TERMS OF REFERENCE	21

1. PURPOSE OF REPORT

- 1.1 The purpose 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. Furthermore, the purpose is to draw out the scenarios that the Council faces and to describe the approach to addressing the conclusions.

2. RECOMMENDATIONS

That the Council: -

- 2.1 Welcome the publication by the Scottish Government of its Resource Spending Review through to 2026/2027 on 31 May 2022 and notes that this indicates a flat cash settlement for Local Government for the next 3 years, followed by a 1% increase in 2026/27;
- 2.2 Approve the Medium Term Financial Strategy for the General Fund, 2022;
- 2.3 Note that the report on TOM1.2 is also on the agenda today, which describes the approach the Council intends to take through transformation and multi-agency working to contribute towards closing the gap between income and expenditure forecast;
- 2.4 Welcome the alignment of the MTFS and TOM1.2, together these documents represent the fiscal framework for Aberdeen;
- 2.5 Note that the publication of the National Care Service (Scotland) Bill and associated Financial Memorandum indicates that the first year of operation will be 2025/26, within the term of the MTFS, and this has the potential to remove c.25% of financial resources from the Council;
- 2.6 Note the reported impact that inflation and supply chain volatility is having on our current financial year [Council Financial Performance Quarter 1, 2022/23:

RES/22/152] and that the impact is anticipated to continue to have an effect on the future funding gap;

- 2.7 Note that the commitments contained within the Partnership Agreement, adopted on 18 May 2022, remain uncoded for future years and are being worked on to support the update of the MTFs when the budget is set for 2023/24 in March 2023;
- 2.8 Note the reprofiled capital programme, which was referred from City Growth & Resources Committee on 3 August 2022 [RES/22/152] to Council today, is the basis for capital financing costs and debt levels referred to in the MTFs;
- 2.9 Note the 2023/24 Budget will be discussed and set by the Council in March 2023 reflecting the commitments within the Partnership Agreement; and
- 2.10 Note the ongoing development of the data presented in relation to the Council's Financial Resilience Framework and the insight this provides of the underlying strength of the Council finances that support the continued operation of services through the uncertain and volatile environment. The data identifies indicators to watch, and these should be carefully considered when setting future budgets. The Chief Officer – Finance will continue to develop the Framework.

3. CURRENT SITUATION

- 3.1 The Council's MTFs was approved by the City Growth and Resources Committee on 10 November 2021, with the financial forecasts updated as part of the budget setting process for financial year 2022/23, approved in March 2022.
- 3.2 Having this overarching document is increasingly important in an environment that has continued to be more challenging and more complex, which has seen the effects of Russia's invasion of Ukraine and resulting war, and the supply chain volatility and inflation that have spiked as a result.
- 3.3 The Scottish Government published its Resource Spending Review on 31 May 2022, accompanied by a revised Medium Term Financial Strategy and Review of Capital Spending.
- 3.4 After taking account of the financial environment, the information provided by Scottish Government and the approved budget setting decisions for 2022/23 an updated Medium Term Financial Strategy for the Council's General Fund has been completed and is attached as Appendix 1.
- 3.5 The Target Operating Model (TOM1.2), also on the agenda [CUS/22/171] presents the Council with a way forward to transform services and to contribute to closing the future budget gap. Programmes of work include eight on transformation of Council services and four that cut across the Council and our partners as part of our multi-agency transformation approach.
- 3.6 Together, the MTFs and TOM1.2 documents represent the fiscal framework for Aberdeen.

- 3.7 The MTFS provides the Council with an overview of the financial situation and how this is evolving in these uncertain times, and to consider how sensitive the financial situation is to changes in income and exposure to demand and inflation.
- 3.8 The strategy draws on a range of information and data and relies on scenario planning to express a range of financial consequences that will only become certain with actual experience and with more and better information over time.
- 3.9 The strategy sets out a range of principles for income, expenditure and capital investment that are designed to support financial resilience and financial sustainability and these are included at paragraphs 1.17 to 1.19 of the Strategy.
- 3.10 The question of financial resilience is one that continues to be very important to local government. The report on the MTFS last year instructed the Chief Officer – Finance to continue to develop the framework for financial resilience.
- 3.11 The Financial Resilience Framework was populated with information from the Council's Annual Accounts, for the three years up to 31 March 2021 and this has been updated to include the unaudited Annual Accounts for 2021/22. The information is therefore the cumulative effect of decisions taken over many years and does not by itself reflect what the future position may look like. I have made reference to the table at 6.36 of Appendix 1, to whether the ratio appears to be stable or improving or if we should be watching it. The figures on their own provide information to provide assurance to the Council that the underlying strength of the finances are healthy given the volatile and high-cost environment we are working in. It is acknowledged that the benefits from having this data are yet to be fully realised, with further work and comparison required. That said there is sufficient insight to highlight indicators that should be carefully considered when making budget decisions going forward.
- 3.12 I have continued to develop the various strands of the framework and discussed this with the Directors of Finance Section for Local Government, where the detail that we have developed has been added to the Section's resilience agenda.
- 3.13 I will again provide commentary and data as part of the 2023/24 budget setting process, and I will continue development work in conjunction with partners.

4. FINANCIAL IMPLICATIONS

- 4.1 There are none arising directly from the report. The Medium Term Financial Strategy 2022 sets out the financial implications for the Council's General Fund and will be the financial parameters within which the annual budget setting process will be undertaken.

5. LEGAL IMPLICATIONS

- 5.1 While there are no direct legal implications arising from the recommendations of this report, there are additional reporting requirements due to the London

Stock Exchange listing, for example the requirement to notify them ahead of publication of the report.

- 5.2 The Council has a statutory duty to set Council Tax and a balanced budget, and the Strategy sets out the related challenges and the parameters within which this will have to be done.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 While there are no direct environmental implications from the recommendations in this report, the development of the MTFs must have a reference to the environmental objectives and targets that the Council has a duty to deliver on. Those duties come at a cost and where possible the scale of the challenge has been described, it is clear however that an enormous amount of further work is required in order to quantify the detailed proposals, business cases and funding solutions to meet of those duties.

- 6.2 The MTFs will continue to take account of the latest information in relation to our actions towards Net Zero as it is regularly refreshed.

7. MANAGEMENT OF RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Failure to recognise the consequence of the economic and local circumstance could lead to poor use of resources	The Strategy is in place to look forward into the medium term and plan for the future to improve the likelihood of resource allocation being aligned to strategic outcomes.	L	Yes
Compliance	Failure to set balanced budget.	A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March.	L	Yes
Operational	Failure to take account of the financial constraints described in the MTFs and to change	A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March.	L	Yes

	operational arrangements to be affordable could lead to unplanned spending reductions.			
Financial	The assumptions are insufficiently sensitive to the situations that might arise, resulting in a larger financial challenge.	The strategy is based on scenarios that present a range of potential impacts for the Council's finances. It will be kept under review.	M	Yes
Reputational	There is a risk that through the reduction of expenditure the Council may be criticised that spending is not in line with public expectation of service delivery.	The Council has continued to address priority spending areas, and to protect people. It is equally accountable for the use of public funds and to ensure that they are managed robustly. There are a wide range of unknown external factors that require to be balanced to deal with the current operating environment. Regular reporting during the year provides an ongoing description of the position the Council is in and the situations it faces.	M	Yes
Environment / Climate	Failure to take account of the long-term objectives in relation to our climate and the associated costs may lead to unexpected or unplanned expenditure.	The Council has put in place appropriate strategies to target the Net Zero objectives and continues to work on the long-term costs and affordability. The MTFS will continue to be updated to reflect the latest information.	M	Yes

8. OUTCOMES

<u>COUNCIL DELIVERY PLAN</u>	
	Impact of Report
Aberdeen City Council Policy Statement	<i>Financial planning, budget setting and resource allocation are all enablers for the delivery of the outcomes and regular performance reviews ensure that the Council's stewardship and financial management are robust.</i>
<u>Aberdeen City Local Outcome Improvement Plan</u>	
Prosperous Economy Stretch Outcomes	The Council continues to invest in front-line services across its statutory responsibilities as well as capital infrastructure. Investment in the city will have a positive impact on the economy.
Prosperous People Stretch Outcomes	Robust and effective management of the Council's finances will ensure that services can continue to be provided.
Prosperous Place Stretch Outcomes	Investment will enhance the place by creating a better and more vibrant city in which to live.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	not required
Data Protection Impact Assessment	not required

10. BACKGROUND PAPERS

None.

11. APPENDICES

Appendix 1 – Medium Term Financial Strategy for the Council's General Fund 2022

12. REPORT AUTHOR CONTACT DETAILS

Name	Jonathan Belford
Title	Chief Officer - Finance
Email Address	jbelford@aberdeencity.gov.uk