

ABERDEEN CITY COUNCIL

COMMITTEE	Council
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REPORT TITLE	General Fund Revenue Budget and Capital Programme 2023/24 to 2027/28
REPORT NUMBER	RES/23/085
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TERMS OF REFERENCE	1 and 2

1. PURPOSE OF REPORT

- 1.1 This report provides the Council with information on both the revenue budget for 2023/24 and capital programme for the period 2023/24 to 2027/28 in order that approved budgets and Council Tax value can be set by the Council for the year commencing 1 April 2023. The presentation of the revenue and capital budgets this year are set against the on-going uncertainty created by the higher cost of goods, service and utilities, with inflation having risen to 40 year highs during 2022/23, a volatile supply chain, changes in the financial markets that have caused higher borrowing costs, and net zero targets.
- 1.2 In addition, following the devolution of Non-Domestic Rates Empty Property Relief to Local Government, the Council must decide on an Empty Property Relief Scheme that will apply from 1 April 2023.

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 2023, 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 Statement for 2023/24 as detailed in Appendix 6.
- 2.1.7 Approve the implementation of the guidance on Service Concessions flexibility that is detailed in Appendix 7;
- 2.1.8 Agree as part of the implementation of the Service Concession flexibility that the costs accounted for in years beyond the contract term will be met from the 3R's schools and Lochside unitary charge budgets released at the end of their respective contracts;
- 2.1.9 Approve the use of the retrospective funds released by the Service Concession flexibility for voluntary severance / early retirement payments from 2022/23 onwards c.£33m), based on the commitment to no compulsory redundancies, the approved Medium Term Financial Strategy and TOM1.2 setting out the need for recurring staff savings over the next five years of £40m; and note that the cost of accessing the retrospective reserve will incur financing costs of c.£2m, which will be incorporated into the Councils treasury management arrangements.

2.2 Medium-Term Financial Projections

- 2.2.1 Note the forecast medium-term financial projection for the period ending 31 March 2028 as shown in paragraph 3.18;
- 2.2.2 Note that the Scottish Government published its Resource Spending Review in May 2022 that stated that Local Government should expect to receive a 'flat cash' settlement for the period 2023/24 to 2025/26, and that following the publication of the Local Government Financial Settlement for 2023/24, on a like for like basis, this position is borne out with a 0.2% increase to revenue funding being awarded for financial year 2023/24;
- 2.2.3 Note that the Local Government financial settlement annually has to be supplemented by allocations from other Scottish Government portfolios, and Ministers have guaranteed £1bn out of the current £1.4bn received by Local Government;
- 2.2.4 Instruct the Chief Officer – Finance to refresh the Medium Term Financial Strategy and report to the Council by the end of December 2023;
- 2.2.5 Instruct the Chief Executive to review the existing organisational structure, in light of the approved budget and to report back to council by December 2023 on any suggested amendments to ensure the sustainability of council operations;
- 2.2.6 Instruct the Chief Executive to engage with the workforce seeking their input and feedback on shaping any amendments to the structure; and
- 2.2.7 Instruct the Chief Executive to align instructions 2.2.5 and 2.2.6 with the previous instruction given regarding Interim Organisational Structure (Council, 13 October 2022, CUS/22/216).

Risks

- 2.3.1 Consider the risks set out in Section 7 and note the ongoing exceptional operating environment, a legacy of the Covid-19 pandemic, but more significantly this year created by pay and price inflation set against a poor financial settlement for Local Government, and an increase in the known and unknown risks that arise as described in the report;
- 2.3.2 Note that pay negotiations for the current financial year, 2022/23, are not concluded creating risk of further financial exposure this and next year, pay being the largest single element of the Council budget even small changes to this can have material impact on Council finances;
- 2.3.3 Note the Scotland Excel Supply Chain Bulletin, January 2023, highlighted the exposure that the local Government sector has to inflation, in particular the

emphasis on 'very high' exposure applying to a large number of procurement frameworks relevant to the Council;

2.3.4 Note that future borrowing costs are higher than they have been since 2011;

2.3.5 Note that the Risk Appetite Statement states that the Council is averse to risks associated with impairing financial stewardship, internal controls, and financial sustainability;

2.3.6 Instruct the Chief Executive, in consultation with the Chief Officer – Finance, to monitor delivery of budget savings and our planning assumptions on pay award and supply chain risk and to advise Council of any in year changes required; and

2.3.7 Instruct the Chief Officer – Capital, in consultation with the Chief Officer – Corporate Landlord and Chief Officer – Finance, to keep the Capital Programme under review from a value for money perspective and to advise the Finance and Resources Committee, as part of the Financial Performance Quarter 1 report, on any action required.

2.4 Revenue Budget Recommendations

2.4.1 Note that the conditions outlined by the Scottish Government within the Local Government Finance Settlement for 2023/24 are met by the proposals set out in the report;

2.4.2 Note that the General Fund budget has £5m of in-year contingencies included to provide for the known and unknown risks that may arise during the year, this represents only 0.9% of the net budget;

2.4.3 Approve the savings and 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 2023/24, having due regard to;

a) The Budget Model as contained in paragraph 3.18 that identifies a funding shortfall of £46.6m for 2023/24;

b) The impact of service redesign on services and fees and charges described in Appendix 8;

c) The Revenue and Capital Reserves Statement, that sets out the Council should maintain uncommitted General Fund balances of between a minimum of £12m and £34m;

d) The Financial Resilience Framework data shown in Appendix 2;

e) The Prudential Indicators and impact of the General Fund Capital Programme on revenue expenditure, Appendix 3;

f) The savings options and cost of implementation put forward in Appendix 9 and Fees and Charges proposals in Appendix 10, noting that a decision has already been taken by Council (14 December 2022, RES/22/294) on parking charges with effect from 1 April 2023 and the impact of this decision has been included in the updated financial model for 2023/24;

g) The Convention of Scottish Local Authorities (Cosla) commitment to 1% of the budget being subject to participatory budgeting;

h) The revenue items referred to the budget process, as shown in Appendix 11;

i) The Council's Risk Appetite Statement; and

j) Integrated impact assessments and screening results provided in the background papers.

2.4.4 Approve the Commissioning Intentions and Service Standards as described in Appendices 12 and 13 respectively, subject to any amendments approved as per 2.3.3 above, noting that the Chief Officer – Finance has confirmed, as far as possible, that the Commissioning Intentions and Service Standards being implemented are consistent with the draft budget for 2023/24 and Medium Term Financial Strategy;

- 2.4.5 Instruct the Chief Officer - Customer Experience to embed the revised Service Standards in the handling of service requests, enquiries and complaints;
- 2.4.5 Approve the level of funding for the Aberdeen City Health & Social Care Partnership IJB 2023/24 to meet the conditions of the Scottish Government Financial Settlement, described in paragraphs 3.124 and 3.129 to 3.134, and to note that it will be for the IJB itself to determine how it will balance its budget;
- 2.4.6 Approve the fees and charges for the Aberdeen City Health & Social Care Partnership IJB, as shown in Appendix 10;
- 2.4.7 Approve the level of funding for the Council's other group entities and Arm's Length External Organisations (ALEOs), in 2023/24 with reference to paragraphs 3.119 to 3.139;
- 2.4.8 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 2023, and any further sums distributed to the Council, to meet need and demand or to cover for lost income where it arises during 2023/24, reporting the use of funds to the Finance and Resources Committee in the quarterly financial performance;
- 2.4.9 Note the Council's approach towards meeting the target of 1% of revenue funding being available for Participatory Budgeting;
- 2.4.10 Instruct the Chief Officer – Finance to give notice to the Board of Directors of NYOP Education (Aberdeen) Ltd to disburse £663,000 to Sport Aberdeen and £221,934 to VSA, being nominated charities of NYOP; and
- 2.4.11 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.

2.5 Taxation Recommendations

- 2.5.1 Approve a Band D equivalent Council Tax rate of £1,560.48 (10% increase), with effect from 1 April 2023;
- 2.5.2 Note that there are expected to be short term proposals forthcoming on Council Tax reliefs for long term empty properties and second homes, Cosla Leaders are due to discuss these at their February meeting and instruct the Chief Officer – Customer Experience to implement as required;
- 2.5.3 Impose and levy Council Tax assessments for the period 1 April 2023 to 31 March 2024 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;
- 2.5.4 Note that the Council implements revisions to the national Non-Domestic Rates (NDR) scheme as defined by the Scottish Government within the relevant legislation and Finance Circulars, with effect from 1 April 2023;
- 2.5.5 Following the devolution of the NDR Empty Property Relief to Local Government approve the Empty Property Relief Scheme for Aberdeen City with effect from 1 April 2023, as set out in Paragraphs 3.85 to 3.88;
- 2.5.6 Note that the Council intends to review the NDR Empty Property Relief scheme on an annual basis, and this will be done in the context of work instructed on the Union Street Empty Shops Action Plan (COM/22/287); and
- 2.5.7 Impose and levy Non-Domestic Rates assessments for the period 1 April 2023 to 31 March 2024 on all occupiers in Aberdeen City to be paid by those liable.

2.6 Carbon Budget Recommendations

- 2.6.1 Agree a Carbon Budget of 26,474 tonnes carbon dioxide equivalent (tCO₂e) and an annual savings target of 2,482 tCO₂e for 2023/24, as Table 2 in Appendix 14;

- 2.6.2 Note the progress in implementing Phase one actions of the Council's agreed approach to carbon budgeting;
- 2.6.3 Instruct the Chief Officer - Strategic Place Planning, to implement Phase 2 actions, as set out in Appendix 14;
- 2.6.4 Instruct the Chief Officer - Strategic Place Planning, in consultation with the Chief Officer - Finance to submit provisional quarterly carbon budget monitoring reports to the Net Zero, Environment and Transport Committee.

3. BACKGROUND

FINANCIAL PLANNING

- 3.1 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 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.
- 3.2 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**
- 3.3 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.
- 3.4 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.
- 3.5 The Council's Best Value Assurance Report, published in June 2021, recommended that this be refreshed, and while work has been slow to be completed, it is the intention that this will be completed during 2023/24, to update the Council's long term financial plans in the context of what is now a very different operating environment.

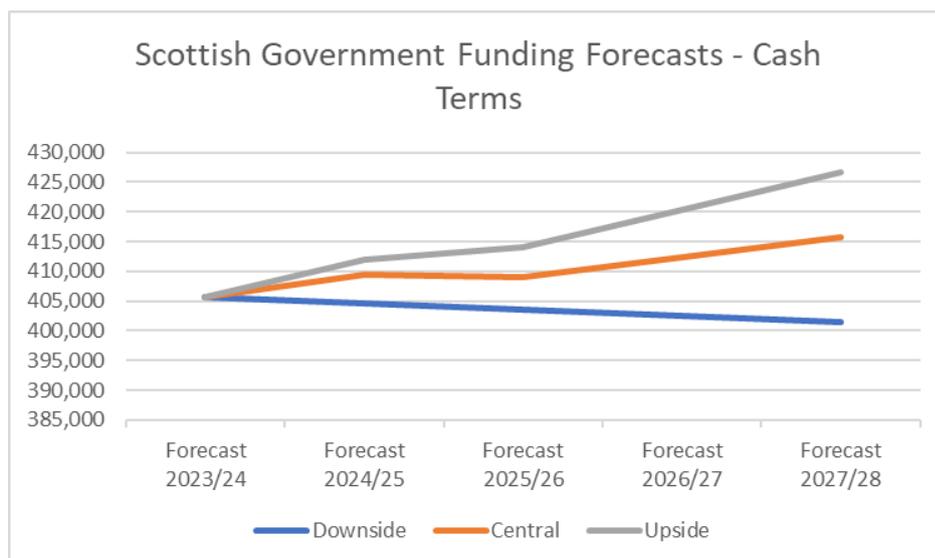
Medium Term Financial Strategy

- 3.6 The Council was presented with the latest 5-year Medium Term Financial Strategy (MTFS) at City Growth and Resources Committee on 24 August 2022. This set out the commitment to provide services that meet the needs of people locally, and represent 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.

- 3.7 The Target Operating Model (TOM) 1.2 report (CUS/22/171), describing the Council's approach to transformation and redesign to contribute to balancing the medium term financial position, was considered by the Council alongside the MTFS. The Council agreed the TOM 1.2 for 2022-27 to support the necessary scale of transformation to deliver the level of savings required over the next 5 years, as outlined in the MTFS; and noted that the level of investment required to enable the release of savings would be identified as part of the Council Budget process, and this is demonstrated in part by the intention to use the Service Concession benefit (Appendix 7) to support the reduction in the workforce over the next five years; and in the digital investment of £9.5m over three years rising to £12.5m over five years.
- 3.8 The 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 – 2027/28. The Scottish Government announced a one-year budget for 2022/23 in December 2021 and published, on 31 May 2022, its Resource Spending Review (RSR), which provided an insight to the funding priorities of Scottish Government, and how Local Government can expect to be funded in the future. The spending review was accompanied by a MTFS for Scotland and Review of Capital Spending.
- 3.9 This has provided the basis for forecasting the next five years, and left the Council with a clearer, more certain understanding of the financial environment for Local Government going forward. The insight, if limited in detail, underpins medium term financial assumptions which assists 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.
- 3.10 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.
- 3.11 Illustrated within the MTFS are projected financial scenarios that are highly dependent on the level of Scottish Government funding. The settlement that the Council has received for 2023/24 cannot be compared directly with these scenarios as the level of additional expenditure that will be incurred increases. From the analysis undertaken it can be concluded that the underlying funding for 2023/24 is broadly as expected in the Central Scenario. The chart below has been updated to take account of the 2023/24 Financial Settlement and known changes to future funding streams and presents a forecast of how this may alter over the next five years.

Scottish Government Grant Scenarios



From the Financial Settlement for 2023/24 general revenue grant position (excluding specific grant and one-off funding streams) of £406m, the upside position looks at a scenario of that rising by £21m to £427m over the next five years. On the downside the value of core funding, could be as low as £401m, a funding range of £25m.

- 3.12 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 maximise and 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.
- 3.13 Fiscal levers that may be available in the future are the levies that have and are progressing through the Scottish Parliament, namely the Local Visitor Levy (LVL) and the Workplace Parking Levy (WPL). Officers have been engaged with Cosla, other Councils and the Scottish Government to assist in shaping the of the Local Visitor Levy and the Council should continue to play an active part identifying and supporting the devolution of further powers.
- 3.14 The Council will need to consider its appetite to developing and applying schemes, such as LVL and WPL, locally and note that the development and implementation will require resources and time. It will therefore be important to understand the how these fiscal levers fit within the Council's MTFs and Target Operating Model.

Short Term Financial Planning

- 3.15 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.
- 3.16 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 2023/24 the following grant conditions have been applied:
- Scottish Attainment Challenge funding, including Pupil Equity Funding remains bound by existing grant conditions;
 - Universal provision for P1-P5 and special schools free school meals;

- Maintaining teacher numbers;
- Maintaining pupil support assistants;
- 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.

3.17 No conditions are placed on Council Tax rates, and as such changes are neither capped nor limited.

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

General Fund	Budget 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28
	£'000	£'000	£'000	£'000	£'000	£'000
Children's & Family Services	220,593	231,918	242,575	250,876	256,077	260,926
Commissioning	22,867	24,190	25,352	26,406	27,047	27,760
Customer	44,114	44,073	49,072	52,944	55,136	57,000
Integrated Joint Board	116,639	116,639	116,639	116,639	116,639	116,639
Resources	52,093	60,752	71,948	80,727	85,578	89,656
Corporate	60,166	111,442	118,848	125,554	128,922	130,108
Net Expenditure	516,471	589,014	624,434	653,147	669,399	682,089
Funded By						
General Revenue Grant	(113,158)	(148,915)	(153,135)	(153,005)	(154,003)	(155,010)
NNDR	(268,557)	(257,798)	(257,501)	(257,205)	(259,481)	(261,778)
Council Tax	(129,237)	(131,306)	(132,375)	(133,445)	(133,962)	(134,479)
Use of Reserves	(5,519)	(4,350)	0	0	0	0
Core Funding	(516,471)	(542,368)	(543,011)	(543,654)	(547,446)	(551,267)
Net Impact on General Fund	0	46,646	81,423	109,492	121,953	130,822
			34,777	28,070	12,461	8,869
Impact of Council Tax Increase:						
Council Tax real terms increase annually		(12,924)	(21,642)	(26,294)	(31,102)	(36,070)
Updated Net Impact on General Fund		33,722	59,781	83,198	90,851	94,752
Impact of Recommissioning in 23/24 - recurring		(42,772)	(42,772)	(42,772)	(42,772)	(42,772)
Impact of Recommissioning in 23/24 - non-recurring		(663)	0	0	0	0
Updated General Fund Position		(9,713)	17,009	40,426	48,079	51,980
Annual Gap between Income and Expenditure			17,009	23,417	7,653	3,901

3.19 The table above draws attention to the total budget gap in 2023/24 of £46.6m. It also shows the impact of balancing the budget in 2023/24, based on the assumption that Council Tax should be increase in real terms, per the MTFS. The assumed increases are 10% for 2023/24, and 6% for 2024/25, with 3% thereafter. The recommissioning of services represent the budget options and will reduce expenditure and increase income. Further detail of the assumptions used to model expenditure and income are shown in Appendix 15 and a graphical representation of the funding gap is contained in Appendix 8.

3.20 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 9, 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.

- 3.21 This is demonstrated above (in table at 3.18), and if all the savings were taken in full (plus the assumed levels of Council Tax increase in future years) the overall impact would be to reduce the gap in the future to £52.0m by 2027/28 (subject to further updates to the MTFs). The Extended Corporate Management Team are already working on the solutions to this.
- 3.22 The Council, setting its budget for 2022/23 made decisions to use one-off funding, for example, in the form of fiscal flexibility approved by the Scottish Government, to defer the accounting for debt repayments for a single year, and the use of general revenue grant funding that had been retained in earmarked reserves. Using one-off funding is an unsustainable approach and therefore each annual budget must unwind the one-off funding solutions increasing the financial challenge in the following year to approve a balanced budget. In total for 2023/24 the Council has unwound over £19.4m of one-off funding used in 2022/23.
- 3.23 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. It is essential that the Council protects those Reserves given the level of uncertainty and financial risks that continue to exist, known or unknown.
- 3.24 Those risks, as described in section 6, particularly around pay and price inflation, highlight the need for robust and available reserves, to focus the attention on the financial resilience of the Council, ensuring that the Council understands not only the risks but the limits on the depth of that resilience. Costs rising at rates not seen for decades only emphasises the need for the Council to give due regard and attention to the level of resilience it has and acting to strengthen that resilience and tightening controls with the rising risk environment.
- 3.25 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.

CURRENT CONTEXT

Recent reporting and political announcements

- 3.26 The City Growth and Resources Committee/Finance and Resources Committee has received three reports during the financial year 2022/23 on the financial position of the Council during another extremely challenging and changeable year, from the ongoing legacy arising from the pandemic, financial market turbulence sending future borrowing costs up to the highest for over a decade to the various factors influencing the rise in inflation to levels not seen for 40 years. There are known uncertainties that the Council still has to protect against, teacher pay for example (see paragraphs 3.40 and 3.57) as well as the weather related risks in the remainder of the year. Therefore with one month until the end of the financial year, subject to no further exposure from the above risks, 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.

- 3.27 The Scottish Budget for 2023/24 was published on 15 December 2022, with the Budget (Scotland) Bill reaching Stage 3 in the Scottish Parliament on 21 February 2023.
- 3.28 The Local Government Settlement was announced for a single year, 2023/24, on 20 December 2022, which amounted to revenue and capital funding of £13.2bn.
- 3.29 It should be noted that at Stage 3 of the Budget Bill, on 21 February 2023, funding of £100m was announced by the Deputy First Minister, and this is for the purpose of supporting the 2023/24 pay negotiations. These negotiations will increase the expenditure of the Council therefore none of this funding can be used to offset the existing budget gap.

2022/23 Balance Sheet Position

- 3.30 The position as at 31 March 2022 per the audited 2021/22 accounts showed the Council was worth £1.4 billion.
- 3.31 The projected balance sheet position at 31 March 2023 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 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.
- 3.32 The Balance Sheet provides information on the currently projected level of reserves and balances held by the Council at 31 March 2023. The Accounts Commission in its Local Government in Scotland: Financial Bulletin 2021/22 highlight that “Two-thirds of councils intend to use reserves to help bridge the 2022/23 gap between anticipated expenditure and revenue (budget gap) of £0.4 billion but this reliance on non-recurring reserves is not sustainable in the medium to long term. Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.”

Reserves Position

- 3.33 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).
- 3.34 In relation to the resilience that is provided by the Usable Reserves, it is vital that the Council has a robust Reserves Statement 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.

- 3.35 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.
- 3.36 A refresh of the Reserves Statement is attached at Appendix 6. In setting its budget, and as noted above, the Council must take account of the Reserves position and the resilience. This includes understanding the extent of contingent liabilities referred to above and described in Appendix 16. The Council considers its Corporate and operational Risk Registers during the year, the next report on the Corporate Risk Register and Risk Appetite Statement will be considered by the Audit, Risk and Scrutiny Committee in March 2023. The review of the Reserves Statement has taken account of known changes that are yet to be reported.

Financial Resilience

- 3.37 It was crystal clear during the last two financial years, 2020/21 and 2021/22, that a single event really does have 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.
- 3.38 The need for financial resilience has been reinforced with the impacts of global events, such as the Russian invasion of Ukraine and subsequent war, the supply chain volatility and impact on fuel and utility prices, which have caused a cost of living crisis, made worse by inflation levels not seen for 40 years and the future cost of borrowing rising to 2011 levels. The Council is relying on £19.4m of one-off funding solutions, including the use of earmarked reserves, to balance the 2022/23 budget, and reducing the resilience of the Council.
- 3.39 The Accounts Commission in their recent publication Local Government in Scotland: Financial Bulletin 2021/22 say that "Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of Covid-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions".
- 3.40 In 2022/23 Local Government has experienced a very challenging pay negotiation between Cosla and the Unions that has added cost to the pay bill for 2022/23, this cost is being met by Councils and Scottish Government. In the case of Aberdeen City the current offers made by Cosla to Unions (and in some cases accepted) the Council has had to find an additional £4.5m, a recurring cost that has only added to the budget gap for 2023/24. At time of writing the uncertainty remains as two pay bargaining groups have yet to be agreed leaving the final cost to local government uncertain.
- 3.41 Never before has it been so important to have financial resilience and pay attention to preparing for the risks that lie ahead for the Council.

- 3.42 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 was updated as part of the MTFS, 2022, approved in August 2022, it is extracted and included in this report at Appendix 2.
- 3.43 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.
- 3.44 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. Data is collected under the following headings: Availability of Resources; Creation of Resources & Gearing; and Longevity & Trends in Resources. The latest data is available from the audited Annual Accounts for 2021/22.
- 3.45 In relation to the “Availability of Resources” indicators there is an unnatural financial position created by the funding provided to support the Covid-19 pandemic as at the end of March 2021. Increased income was paid late in financial year 2020/21, resulting in large sums of funding being carried forward by the Council and this was replicated in all other Scottish Local Authorities. The indicators do show that the Council was in a strong position going into financial year 2021/22 with a healthy value of usable reserves and an appropriate sum uncommitted for specific purposes. Despite a shift in 2021/22 and the use of some of the reserves carried forward to balance the budget, the indicators show that the Council maintained a strong position improving or maintaining positive trends.
- 3.46 Working capital values and the standard affordability test don’t present what would be seen as an ideal position (i.e. over 100%) but given the Council’s statutory position and treasury management strategy there are no concerns about being unable to meet short-term obligations.
- 3.47 The Council has maintained strong financial performance into 2022/23 and while the early estimates for this year were positive the operating environment has had an effect on those forecasts during the year. As detailed below (paragraph 3.59) a deficit is forecast at Quarter 3 and the General Fund may have to rely on earmarked reserves to fund that deficit.
- 3.48 The ‘Creation of Resources & Gearing’ indicators show the cost of capital investment being affordable, the reasons include improving (pooled) interest rate levels on which payments are charged as well as the changes that the Council has made to accounting policy in respect of the capital financing, prudently extending the useful lives of assets to better reflect the actual consumption of the assets.
- 3.49 Since the framework was updated the cost of future debt has risen and is currently higher now than in many years. This follows the Bank of England increasing interest rates regularly to manage rising inflation.

- 3.50 The value of total external debt must be viewed in the context of the overall assets and resources of the Council as debt arises from investment in our assets. The Net Worth of the Council, after accounting for the debt owed, was £1.4bn at 31 March 2022. The value of debt has increased over the years in line with the capital programme decisions that have been made for both General Fund and Housing. Through reference to the approved Prudential Indicators, that accompanied the 2022/23 budget in March 2022, the capital financing requirement is planned to increase and there will be corresponding increases to the annual repayment values. These have been included in the financial scenario planning within the updated financial modelling and MTFs. This includes factoring in the rising interest rates for the cost of financing debt.
- 3.51 The Council is always considering and dealing with the short, medium and long-term. This requires a balance to be struck between when and how resources are used, what the speed and pace can be and where compromise lies. The immediate short term issue is to balance the budget, approve savings that will need to be delivered, consuming resource and time of officers. But the medium and long-term need is that there is clear direction with resources allocated to deliver on our strategic objectives, such as the Local Outcomes Improvement Plan (LOIP).
- 3.52 It is impossible for the Council to be one dimensional and concentrate solely on the immediate, short-term as much as these may present what looks like the most pressing of needs. It is very easy to be caught up in the intensity of day to day activity but the important 'stuff' is achieved in the medium and long-term. The importance of looking ahead and dedicating time to the future, shaping this and providing the direction is crucial, for our citizens, our city and our organisation. In approving a budget these short, medium and long-term tensions need to be addressed and balanced.
- 3.53 Maintaining the financial resilience of the Council will benefit from that multi-dimensional perspective and must be considered when taking the decisions required by this report.

2022/23 Revenue Position

- 3.54 At its meeting on 1 February 2023, the Finance & Resources Committee considered the Council's Quarter 3 Financial Performance Report. Financial risk and potential liabilities remain a concern and constant feature of the current operating environment.
- 3.55 Across the General Fund the recovery from the Covid-19 pandemic continues to impact the financial position, and the need to address ongoing cost pressures remains a feature of the Quarter 3 position and forecasts. Further financial risks from the war started by the Russian invasion of Ukraine resulting in supply chain volatility, and rising inflation, to levels not seen for four decades, are now also affecting the Council, and where these are known they have been considered in the financial forecasts. Quarter 2 included some of the most significant financial market turbulence seen for years, with the cost of government borrowing rising and interventions by the Bank of England. The consequence is that these higher rates are increasing the future cost of capital investment for the Council which will affect affordability tests for capital projects.
- 3.56 A specific example of the current operating environment is the number for families arriving in the city, either through the Ukrainian resettlement programme or through students (arriving with their families) from outside the UK coming to study at the

two universities following a hiatus during Covid. This has pushed pupil numbers up in our schools to new levels.

- 3.57 The additional financial impact (c.£4.5m) on the Council of the 2022/23 pay award agreed with two of the four pay bargaining groups, and the offers made to the two remaining groups means that much of the contingencies have been committed to fund pay in 2022/23. However, the pay negotiations for 2022/23 are not yet concluded, with two bargaining groups still to be concluded, Chief Officers and Teachers, which resulted in the first round of teacher strikes taking place in December, and these have continued into January and February 2023. Despite a revised offer to the Teaching Unions being made in mid-February, backed by additional funding from Scottish Government, agreement has not yet been reached. Until these negotiations are resolved there remains significant risk of potentially unfunded additional cost to the Council, with the consequential impact of additional financial burden arising in 2023/24 on a recurring basis. The Council would have to rely on its Balance Sheet and usable reserves if Contingencies are fully utilised during the year.
- 3.58 The appendices show that the IJB is forecasting a balanced position as at Quarter 3. The Board continue to rely on some Covid-19 related costs being met by Scottish Government however retain reserves to use to support operations as the impact of the pandemic changes. The Council continues to rely on the financial position of the IJB to mitigate any exposure the Council has to additional funding. It should be noted that on the 16 January 2023 the Director of Health Finance and Governance confirmed to Health and Social Care Partnerships that the Scottish Government is seeking a return of IJB Reserves held at 31 March 2022 of c.£330m, and for Aberdeen City this amounts to £9.7m. This has been identified as funding held that is not forecast to be used in financial year 2022/23, and the IJB will consider this and any implications at their next Risk, Audit and Performance Committee
- 3.59 At Quarter 3, a £2.1m deficit position on the General Fund was forecast based on this latest data, and this will be funded from the use of earmarked reserves held on the Council Balance Sheet should the position not improve in the final quarter. While the earmarked reserves provide part of the solution at this time, these are finite and if the situation changes then further consideration would have to be made.
- 3.60 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. In the General Fund Capital Programme, all capital works were affected by the lockdown restrictions. Budgets were reprofiled when the budget was set on 7 March 2022 and again by Council on 24 August 2022 following the unprecedented volatility and cost inflation in the market. That said, progress is being made on key sites that are currently under construction, while others have been paused to retender.
- 3.61 The Council had approved the use of Scottish Government approved fiscal flexibilities in its budget for 2022/23, namely the one-year deferral of debt principal repayment and this will be exercised this year. Approved by the Scottish Government in May 2022, alongside the Resource Spending Review, was the Service Concession flexibility which provides further debt related flexibility to the Council in 2022/23 or 2023/24 (Appendix 7).

3.62 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.

Scottish Government Financial Settlement 2023/24

- 3.63 The total funding package received for the 2023/24¹ financial year is £432.1m (£409.8m 22/23²). However, this includes ring-fenced funding to the value of £27.2m (£28.8m 22/23). Which means that the amount available to support the general fund budget is £404.9m (£381.0m 22/23). At face value this represents an increase in grant funding of £23.9m or 6.3% from 2022/23.
- 3.64 The settlement places new obligations / conditions on the Council, financially the most significant for 2023/24 is the devolution of the Non-Domestic Rates Empty Property Relief, where £15.1m³ has been allocated to the Council. To award Empty Property Relief from 1 April 2023 the Council must approve an appropriate scheme. This is being paid as part of General Revenue Grant.
- 3.65 Furthermore and similar to previous years Health and Social Care funding, including continuing to deliver the real living wage; and uprating free personal and nursing care payments is being protected. The removal of non-recurring funding for 'interim care' means the net impact on the H&SC Partnership is a reduction £0.2m in grant to be provided to the IJB, This will change as funding from 2022/23 for pay is to be added for 2023/24 and the funding for the real living wage increases is yet to be distributed.
- 3.66 Funding has been provided to support the 2022/23 pay award with recurring revenue funding of £140m being included for 2023/24, for the Council this amounts to funding of £5.1m to support additional costs in 2023/24 that had not been assumed.
- 3.67 On top of this are smaller commitments to the local energy strategy, education, children and family services, where £1.6m will also have to be used to support the Whole Family Wellbeing priorities, targeted increase in Free School Meals and increased pupil clothing grants.
- 3.68 Specific grant funding for Early Learning and Childcare has been reduced by £1.8m, including the removal of the funding for the deferral pilot which the Council has assumed for 2023/24. This means that the shortfall of £0.6m will have to be met from the Financial Settlement. (paragraph 3.74)
- 3.69 This means that the Council will incur additional costs of £22.2m when comparing 2023/24 with 2022/23.

¹ 2023/24 values taken from Finance Circular 11/2022, which was revised on 10 January 2023.

² 2022/23 values taken from Finance Circular 1/2022, which was published on 29 March 2022 following the approval of the Local Government Finance (Scotland) Order 2022.

³ Scottish Government has notified that there is an error in the distribution, and it is to be revised following the Parliamentary process – the value will reduce to £14.8m and will be included as the reference point for calculating the final budget proposals.

- 3.70 Therefore £22.2m for 2023/24 needs to be removed from the amount available to support existing general fund services (£404.9m - £22.2m = £382.7m).
- 3.71 When £382.7m is compared with the funding the Council has for the same set of services in 2022/23 (£381.0m) then the settlement for 2023/24 has increased revenue funding by 0.4%, or £1.7m.
- 3.72 In 2023/24 this is only part of the revenue picture, as ring-fenced funding of £27.2m is being paid to the Council as referred to above. This pays for five specific Council activities, namely Gaelic; Pupil Equity Funding (PEF); Criminal Justice Social Work; Early Learning and Childcare Expansion (ELC).
- 3.73 Comparing 2022/23 funding for the same activities the funding is flat cash for Gaelic and Criminal Justice Social Work services. PEF has been increased by £10m for Scotland to £130m and the Council will receive an additional £0.2m, £3.3m in total.
- 3.74 Early Learning and Childcare is partially funded through specific grant and due to distribution changes, the funding for the Council is reducing by £0.6m compared to 2022/23. The core grant for ELC Expansion has reduced from £20.5m to £19.9m, and has been taken account of as part of the calculations above. The situation is however compounded by the removal of the deferral pilot funding £1.2m.
- 3.75 Based on the Scottish Government's Finance Circular setting out the 2023/24 Local Government Settlement for Aberdeen City Council, taking into account both General Revenue and Ring-Fenced Revenue grant funding, on a like for like basis, reveals a settlement for 2023/24 that is £0.7m more than in 2022/23. This represents a 0.2% increase year on year. Clearly a real terms decrease year on year in revenue funding for 2023/24, all the more significant because of current inflation levels and market conditions.
- 3.76 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. The Scottish Government calculation for 2023/24 shows Aberdeen City receives 89.4% of the Scottish per capita figure.
- 3.77 It should be noted that there is an 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

- 3.78 The value of distributable Non-Domestic Rates (NDR) for Scotland has been assessed as £3,047m. This figure uses the latest forecast of net income from non-domestic rates in 2023/24 and also draws on council estimates of the amounts they will contribute to the Non-Domestic Rating Account (the 'Pool') in 2022-23. The figure incorporates the Scottish Fiscal Commission's estimate of the contributable amount and includes a calculation of gross income; expected losses from appeals; estimated expenditure on mandatory and other reliefs; write-offs and provision of bad debt together; and estimated changes due to prior year adjustments. This means that the anticipated level of NDR distributable to Aberdeen City in 2023/24 will be £258m (2022/23 £269m).

- 3.79 The total level of NDR distributable to the Council differs from the collectable value in the city, and as such it represents the guaranteed sum the Council will receive from the national pool. The Council will bill and collect NDR during the year however the General Revenue Grant is varied during the year to take account of any differences that occur between the local sum collectable and the guaranteed distributable sum.
- 3.80 The Valuation Roll has been subject to reassessment, and values for Aberdeen City Council properties have experienced both upwards and downwards revaluations. The Council is currently undertaking a process of pre-agreement with the Grampian Valuation Assessor to finalise valuations.
- 3.81 The Scottish Government has implemented new arrangements whereby valuation Appeals from the public sector that are successful will result in an adjustment to grant funding. This is based on the need to remove the volume of appeals received by assessors in order to facilitate a triennial valuation cycle as recommended in the Barclay Review. The process incentivises the public sector to have pro-active advance discussions with assessors to pre-agree valuations and avoid the formal appeal process.
- 3.82 The 2023/24 NDR poundage rate has been provisionally set at 49.8p, the same as in 2022/23. Two additional rates also remain the same as 2022/23 and are levied on properties with a rateable value over £51,000 (51.1p – the Intermediate Property Rate) and £100,000 (52.4p – the Higher Property rate), the threshold up from £95,000 in 2022/23.
- 3.83 The Scottish Budget 2023/24 introduces a range of changes to existing reliefs and a number of transitional reliefs, which are detailed in the Local Government Settlement, Finance Circular 11/2022.
- 3.84 Importantly the Council should note that Empty Property Relief will be devolved to local authorities on 1 April 2023 covering all relief and rates exemptions for fully unoccupied properties including listed buildings, properties where the owner is in administration, etc. Partly unoccupied properties that the council requests be apportioned by the assessor will be liable for rates on the occupied portion only. Councils may offer their own local reliefs under the Community Empowerment (Scotland) Act 2015 including to empty properties.

Aberdeen City Council Empty Property Relief Scheme

- 3.85 The proposed scheme, with effect from 1 April 2023, is to apply the same reliefs as currently available in 2022/23, which are described in the table below.
- 3.86 The table is based on the current valuation roll (January 2023) where the property is receiving an Empty Property Relief.

Type of Relief	Current Relief % and period	No. of Awards
Industrial Properties <i>e.g. factories, warehouses, workshops, garages where the whole or main use of the property falls within these categories</i>	100% for 6 months, thereafter 10%	143
Historic/Listed	100%, unlimited period	402
Insolvency <i>e.g. the owner or tenant company has entered insolvency</i>	100%, unlimited period	80

Type of Relief	Current Relief % and period	No. of Awards
Rateable Value is less than £1,700	100%, unlimited period	84
Non-Industrial Properties <i>e.g. shops, offices, retail warehouses where the whole or main use is non-industrial</i>	50% for 3 months, thereafter 10%	386
Serious Fire Flood Incapable of Occupation	100%, unlimited period	7
Vacant Ground	100%, unlimited period	55
Executor	100%, unlimited period	1
2023/24		1,158

3.87 The number of properties to be eligible for relief is estimated to result in a lower cost than the grant funding that has been allocated for 2023/24 (£14.790m) and based on this there is a saving that can be taken into the general fund budget. This is presented as a saving option.

3.88 The amount of funding being allocated by Scottish Government has been fixed at £105m for the next three years therefore care will need to be taken in ensuring that any modifications to the scheme can be afforded in the future.

Council Tax

3.89 Council Tax income is the largest single income stream that the Council determines the value of and retains the full benefit of. Since 2022/23 the Council has had the ability to set a rate of its choice.

3.90 The Medium Term Financial Strategy (MTFS), 2022, recommended that the real terms increase in Council Tax should be approved annually to enable the Council to in part recover the increasing cost of services, through pay, price and contract inflation.

3.91 Officers have considered all aspects of the financial environment and, assuming an increase in the rate of Council Tax equivalent to 10%, to stay in line with inflation was implemented, it would generate an additional income for the Council of £12.9m. The Council in considering the options for balancing the 2023/24 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 reflect the experience of 2022/23, where additional income of approximately £1m is forecast;
- Bad debt levels remain constant at 2.4%; and
- The number of Band D equivalent properties will increase by 0.8%, such that projected income will increase by £1.07m.

3.92 The current Band D value for Aberdeen City is £1,418.62 per annum. The current Band D Scottish average is £1,347. These figures exclude water and waste water charges.

3.93 The impact of percentage increases in Council Tax by Band is shown in the table below:

Council Tax Band	2022/23 Council Tax Charge	Indicative 2023/24 Charge if percentage increase applied									
		3.00%	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%	11.00%	12.00%
Band A	£ 945.75	£ 974	£ 984	£ 993	£ 1,002	£ 1,012	£ 1,021	£ 1,031	£ 1,040	£ 1,050	£ 1,059
Band B	£ 1,103.37	£ 1,136	£ 1,148	£ 1,159	£ 1,170	£ 1,181	£ 1,192	£ 1,203	£ 1,214	£ 1,225	£ 1,236
Band C	£ 1,261.00	£ 1,299	£ 1,311	£ 1,324	£ 1,337	£ 1,349	£ 1,362	£ 1,374	£ 1,387	£ 1,400	£ 1,412
Band D	£ 1,418.62	£ 1,461	£ 1,475	£ 1,490	£ 1,504	£ 1,518	£ 1,532	£ 1,546	£ 1,560	£ 1,575	£ 1,589
Band E	£ 1,863.91	£ 1,920	£ 1,938	£ 1,957	£ 1,976	£ 1,994	£ 2,013	£ 2,032	£ 2,050	£ 2,069	£ 2,088
Band F	£ 2,305.26	£ 2,374	£ 2,397	£ 2,421	£ 2,444	£ 2,467	£ 2,490	£ 2,513	£ 2,536	£ 2,559	£ 2,582
Band G	£ 2,778.13	£ 2,861	£ 2,889	£ 2,917	£ 2,945	£ 2,973	£ 3,000	£ 3,028	£ 3,056	£ 3,084	£ 3,112
Band H	£ 3,475.62	£ 3,580	£ 3,615	£ 3,649	£ 3,684	£ 3,719	£ 3,754	£ 3,788	£ 3,823	£ 3,858	£ 3,893

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

Council Tax	2022/23	Estimated Additional Income Collected									
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Collectable	129,237	3,877	5,169	6,462	7,754	9,047	10,339	11,631	12,924	14,216	15,508

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

3.95 In January 2023 Cosla Leaders considered a report informing them of the establishment of a Joint Working Group on Sources of Local Government Funding and Council Tax Reform and providing an opportunity for feedback ahead of the next meeting of the Group. Scottish Government officers also confirmed that a proposal will be put forward on Council Tax reliefs on empty properties and second homes and the intention is to move to full consultation on these during March. It is unknown if or when changes will have to be implemented, but the Council will have to respond appropriately as the proposals progress.

Service Income

Specific Grants and Recharges

3.96 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).

3.97 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

3.98 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 had 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. However, the impact on cost of service delivery of pay and price inflation makes even greater impact on the sustainability of services if fees and charges do not rise. Therefore, recommendations on increasing prices have been included in the budget options for 2023/24.

3.99 Through the MTFs and building the budget for 2023/24 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.

3.100 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 10.

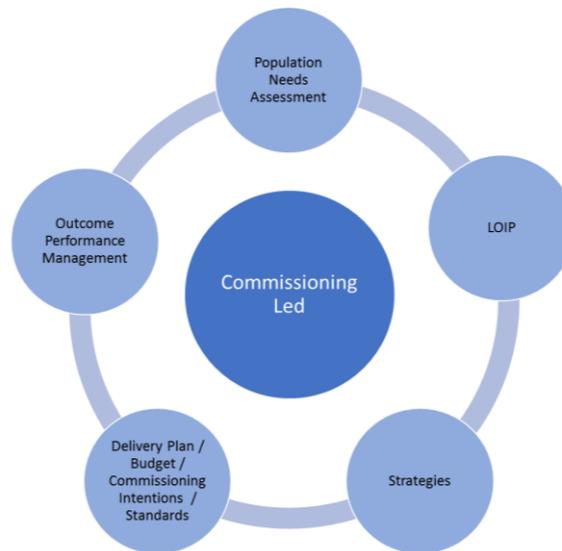
Carbon Budgeting

- 3.101 The Climate Change (Scotland) Act 2009 requires local authorities, in exercising functions, to act in the best way calculated to contribute to the delivery of emission reduction targets. Public Sector Leadership on the Global Climate Emergency guidance states, it is vital that public bodies understand the carbon impacts of their decisions and, therefore, embed carbon into decision making processes. To meet statutory requirements the Council produces an annual Climate Change Report. The most recent report was approved in November 2022 and covered emissions data for the period 2021/22.
- 3.102 In February 2022, Council approved the approach to carbon budgeting for the Council Climate Change Plan and instructed a phased roll out of the carbon budget (Appendix 14). Phase 1 actions in 2022/23, included:
- A deep dive of emissions data for buildings (energy), water and fleet assets
 - The introduction of provisional quarterly carbon figures
 - Calculations for the initial breakdown of the carbon budget for buildings (energy) and water to relevant Functions and Clusters (to be refined in Phase 2).
- 3.103 The emissions “cap” for the financial year 2023/24 is 26,474 tonnes CO₂e. This is the maximum carbon emissions that can be emitted during the year from: energy and water use Council buildings, Council fleet, street lighting, internal waste and staff travel. Refining of the indicative Function and Cluster carbon saving allocations will remain under continuous review through Phase 2.

BALANCING THE BUDGET

Our Commissioning Led Approach to Financial Planning 2023/24

- 3.104 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.

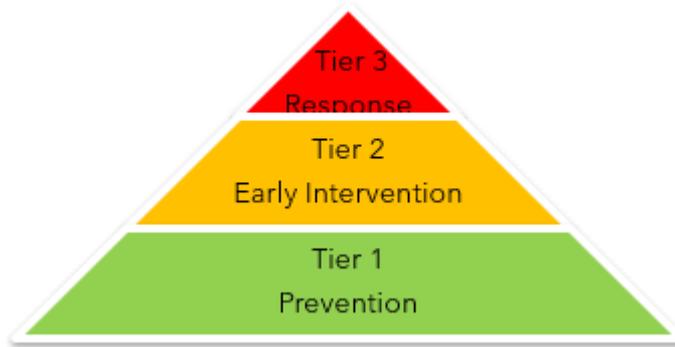


3.105 Adopting this commissioning led cycle ensures that:

- 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**)

3.106 The drivers of demand for the Council and its responsibilities to prevent harm are very broad, and incorporate support for and protection of children, young people and adults; the maintenance and protection of the environment, in particular, commitments to net zero; providing the tools and an environment which support the council's workforce; and stewardship of the council's and the city's assets. Further development of the commissioning cycle in 2022/23 has formalised and implemented a tiered analysis of resource allocation, providing the analysis to support a deliberate shift to prevention of demand and harm as an integral part of our commissioning and budgeting cycle.

3.107 An assessment of expenditure has been undertaken during 2022/23 using the model of tiered intervention illustrated below, allowing a greater understanding of spend in categories of Primary, Early and Specialist Intervention across the organisation. This, in turn, supports prioritisation of services and projects which seek to prevent demand and harm. An analysis of the proposed 2023/24 commissioning intentions shows a significant majority are focused on services predominantly focused at Tier 1 (Prevention) or Tier 2 (Early Intervention).



3.108 A report proposing further integration of the tiered approach to prevention will be presented to Council on 1st March, 2023. Recommendations include:

- embedding Prevention and Early Intervention as part of the annual budget process;
- commissioning a new financial reporting template to capture the Prevention and Early Intervention tiered resource allocations as part of the annual budget process that presents organisational and family group spend by Tier;
- a training programme for staff and elected members on early intervention and prevention;
- amending the Committee reporting template to include commentary on tiered resource allocation on prevention, early intervention and response services;
- instructing a tiered analysis of resource requirements in the refreshed Local Housing Strategy;
- instructing a tiered analysis of the resource requirements to support the refreshed Integrated Children's Services Plan (2023-2026);
- instructing a tiered analysis on annual reporting against the Health and Social Care Partnership Strategic Plan 2022-25.

3.109 This report provides the culmination of the annual Commissioning cycle with the reporting of the Commissioning Intentions (Appendix 12), Services Standards (Appendix 13) and the Financial Model and budget redesign (Appendix 8).

Community Engagement

3.110 Wide community engagement was carried out as part of the Community Planning Partnership's 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.

3.111 The new [Community Empowerment Strategy](#) published in November 2022 is a demonstration of our continued commitment to working with communities to tackle the issues that matter most to them. The ambition of the strategy is for all communities across Aberdeen to be equal community planning partners. It presents an exciting opportunity to explore new ways of ensuring all people's views are listened to and decisions about priorities are informed by people's feedback.

Summary

- 3.112 The effect of our recommissioning is represented by the list of changes that amount to a total of £43.4m, shown in Appendix 9. This list is designed to assist in defining our redesign and savings opportunities, where the Council proposes to achieve cost reductions and income generation to balance the budget.
- 3.113 The impact will be felt across the Council, with a necessary 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. Noting that the Council has already approved (14 December 2022) the introduction of increased parking charges with effect from 1 April 2023.
- 3.114 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 as recommended, then a balanced budget would be achieved, with a surplus assisting in the delivery of future year saving requirements. The Council must set a rate of Council Tax for financial year 2023/24; and must also set out a Non-Domestic Rate Empty Property Relief scheme, both with effect from 1 April 2023.

Referrals from Committee – items not included in the financial model

- 3.115 Appendix 11 provides details of the items that have not been included in the financial model for 2023/24 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 2023/24 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.

Recommendations Required for Budget Options

- 3.116 The Chief Executive is already instructed to “review the Scottish Government's preferred structural model for Children's Services when it is published (anticipated to be later in 2023) and report back to Council, providing advice on the implications for the Council, and specific proposals in relation to the requirements for the Council's organisational structure going forward; including the impact on the Interim Director of Children's and Family Services role.”
- 3.117 In light of the value and volume of savings that will shape the Council going forward, consideration will have to be given to the organisational structure of the Council, it is therefore recommended in this report that the Council:
- Instruct the Chief Executive to review the existing organisational structure, in light of the approved budget and to report back to council by December 2023 on any suggested amendments to ensure the sustainability of council operations;
 - Instruct the Chief Executive to engage with the workforce seeking their input and feedback on shaping any amendments to the structure; and
 - Instruct the Chief Executive to align this instruction with the previous instruction given regarding Interim Organisational Structure (Council 13 October 2022, CUS/22/216).

- 3.118 The Council Delivery Plan makes clear the Commissioning Intentions of the Council and the Service Standards that are to be expected, following the approval of the budget the Service Standards in particular will have to be updated to take account of the decisions made. To facilitate this a further recommendation is sought to make the impact of changes explicit for our customer interaction. It is therefore recommended in this report that the Council:
- Instruct the Chief Officer - Customer Experience to embed the revised Service Standards in the handling of service requests, enquiries and complaints.

GROUP ACCOUNTS

Subsidiaries, Joint Ventures and Associates

- 3.119 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's length bodies also have discretionary and statutory fees and charges as a further source of income.

Energy Cost Pressure

- 3.120 Emerging from the Covid-19 pandemic has been a major challenge in itself however the cost pressure that has been placed on the Group entities has been immense due to the energy and cost of living increases that have been experienced through 2022/23.
- 3.121 In the year to January 2023, gas prices have risen by 129% and electricity by 67%, costs that have had to be passed on to consumers and while some protection was provided by the likes of supplies from Aberdeen Heat and Power, the costs have not been without consequences. Heating large volumes of water in swimming pools incurs great cost, and both Sport Aberdeen and Aberdeen Sports Village have found rising costs to be a particular burden this year, and leading to Sport Aberdeen temporarily closing pool facilities at the Beach Leisure Centre after summer 2022.
- 3.122 The general costs, described throughout this report, of pay and price inflation too will have a continuing effect on the operation of all the Group entities.

Funding Approach

- 3.123 Despite the continuing challenges, expected to continue in 2023/24, considering the Council's financial settlement for 2023/24 the approach to building the budget for the Group entities is as follows:
- Sport Aberdeen have growth requirements from an energy and inflation perspective and are looking at how savings can be achieved. It is proposed to apply a net reduction of £687k on the grant funding for 2023/24. Again, Sport Aberdeen is recommended to be partially funded through monies available through NYOP Education (Aberdeen) Ltd.
 - ASV while relying heavily on their reserves in recent years the proposal is for no growth and no core grant savings. Core grant = Flat cash. Proposals for savings in relation to additional funding streams are included in the options.

- APA has been approached in a similar way to ASV, with no growth and no core grant savings. Core grant (funded by General Fund and Common Good) = Flat cash. Proposals for savings in relation to additional funding streams are included in the options.
- Health and Social Care Partnership IJB will receive additional funding following confirmation of conditions and funding commitments included in the financial settlement. H&SC ALEOs will be funded by the IJB and details will be finalised through their budget setting process.
- Grampian Valuation Joint Board has the power to requisition the Council and has already set its 2023/24 budget, the value increases by 5.1% from 2022/23 to 2023/24.

Summary

3.124 The table below provides details of the funding levels currently included in the 2022/23 budget model for these organisations, along with the values as presented by officers as part of the redesign plans for 2023/24. The Council approved the Target Operating Model 1.2, alongside the MTFs, 2022 (Council, 24 August 2022, CUS/22/171), which included two programmes of work that form part of the Council's overall transformation blueprint as part of the commissioned services redesign programme:

- Redesign and reconfiguration of Estates portfolio (including ALEO estate), we will not only look to reconfigure our estate but seek to use our property differently with ALEO's and public sector partners - the scope will look at addressing the strategic outcomes with the Estates Strategy and transforming how we manage and use the estate. This will, in particular, include how our assets contribute to meeting our net zero ambitions and service delivery requirements; and
- Reconfiguration of working arrangements with Arm's Length External Organisations (ALEOs) - this will be a phased approach looking at key strands, starting with a fresh review of all SLAs, ALEO Business Plans and usage of estate (linking to above project), to inform an option appraisal on potential alternative delivery models. The project will also look to deliver clear social outcomes through enhanced collaboration of early intervention programmes.

The notes, below the table, describe the recommended actions in relation to the Group entities, where relevant:

Organisation	Funding 2022/23 £m	Budget Proposal 2023/24 £m	Funding Change from 2022/23 £m	Funding Change from 2022/23 %
Bon Accord Care (S)	32.835	See note below		
Sport Aberdeen (S)	5.202	4.515	(0.687)	(13.2%)
Aberdeen Sport Village (JV) – (contract year 1 Aug to 31 Jul)	0.824	0.824	0	0.0%
Integration Joint Board (JV)	116.639	117.112	0.473	0.4%
Grampian Valuation Joint Board (A)	1.858	1.952	0.094	5.1%

(S) = Subsidiary; (JV) = Joint Venture; (A) = Associate

Bon Accord Care

3.125 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

3.126 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

3.127 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.

3.128 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)

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

3.130 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:

	Budget Model 2023/24 Net £m	Value of savings Options £m	Potential 2023/24 Funding Position £m
Estimated gross cost of services provided by Aberdeen City Council	156.9	(4.1)	152.8
Less: Allocation to the IJB by the Council	(116.6)	0	(116.6)
Less: Changes per 2023/24 Council Financial Settlement affecting allocations to the IJB	(0.5)	0	(0.5)
Additional Cost to the IJB:	39.8	(4.1)	35.7
Represented by:			
Funding routed through the IJB via the NHSG financial settlement	35.7	0	35.7
Estimated impact of demand, pay and price inflation, to be met by savings to be agreed by IJB	4.1	0	0

3.131 The IJB meets on the 28 March 2023 to consider its 2023/24 financial position and medium-term financial strategy.

3.132 Additional funding included, so far, in the Council's General Revenue Grant for 2023/24 that must be paid over to the IJB amounts to £0.473m, and this includes funding for pay in respect of the 2022/23 pay award and for an uplift in the value of free personal and nursing care allowances; with non-recurring funding for interim care being withdrawn.

3.133 Further announcements by the Scottish Government are expected in relation to £100m for increases in the Real Living Wage. It is expected that funding distribution decisions will be made in the future but will be subject to the same conditions.

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

Grampian Valuation Joint Board (GVJB)

3.135 The Council's funding contribution in the MTFS had been prepared based on the Budget Strategy of the (GVJ) Board. The GVJB met on 27 January 2023 and approved its budget and therefore confirmed the requisition amount for 2023/24. The requisition is based on its approved budget using the agreed share per constituent council (Aberdeen City 39%).

3.136 The value requisitioned by the GVJB amounts to £1.952m for 2023/24.

Arm's Length External Organisations (ALEO)

3.137 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.

Aberdeen Performing Arts

3.138 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.

3.139 Despite the continuing challenges, expected to continue in 2023/24, considering the Council's financial settlement for 2023/24 the approach to building the budget for the APA is as follows:

- APA has been approached in a similar way to ASV, with no growth and no core grant savings. Core grant (funded by General Fund and Common Good) = Flat cash. Proposals for savings in relation to additional funding streams are included in the options.

Organisation	Funding 2022/23 £m	Budget Proposal 2023/24 £m	Funding Change from 2022/23 £m	Funding Change from 2022/23 %
Aberdeen Performing Arts (ALEO) (including Granite Noir and True North event funding)	0.936	0.936	0	0%

CAPITAL INVESTMENT – GENERAL FUND

Capital Income – Scottish Government Grant

- 3.140 The level of General Capital Grant provided by the Scottish Government is advised through the Local Government Finance Settlement 2023-24 (Finance Circular No. 11/2022) dated 20 December 2022. The General Capital Grant for 2023/24 is £18.4m, with a further £1.0m of specific grant available for Cycling, Walking and Safer Routes (CWSR) projects.
- 3.141 The core capital grant for 2023/24 is a reduction of £0.22m (1.2%) on a like for like basis with 2022/23
- 3.142 New funding being distributed is an additional £50m to support Free School Meal infrastructure in schools, the council will receive £2.45m in 2023/24 for capital investment. Significantly short of the amounts needed to deliver the full national policy for P6 and P7 Free School Meals, as previously reported to Scottish Government (Autumn 2021).
- 3.143 There is also the capital funding of £120.6m that is continuing to support the pay deal in 2023/24. As capital funding cannot be used to pay for revenue expenditure Councils are required to use statutory and accounting guidance to convert the capital funding to revenue money to fund a part of the pay bill for 2022/23 and 2023/24 with recurring revenue funding being provided from 2024/25. The Council will receive £4.373m of funding in 2023/24 which will meet additional recurring costs from 2022/23.
- 3.144 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 financing 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

- 3.145 Budgeted capital expenditure over the next five years is £533.1m (including forecast reprofiling of unspent budgets in 2022/23), with associated funding, excluding borrowing, of £188.7m. The balance of £344.4m will require to be funded by borrowing.
- 3.146 Borrowing commits the Council to ongoing revenue costs over many years, the future cost of which being substantially higher at time of writing than a year ago. 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.
- 3.147 Due to recent Bank of England increases to interest rates, the cost of future borrowing has increased and must be borne in mind when considering the revenue costs, particularly with the cost of construction is inflated too.

Capital Income – Developer Obligations

- 3.148 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 24 months.

Many of these developments obtain planning permission on the basis of making specific developer contributions to new or improved infrastructure (among other things).

- 3.149 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.
- 3.150 As noted last year, these obligations remain 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

- 3.151 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.
- 3.152 Approved in the 2021/22 capital programme was an additional £150m, over 5 years to support city centre and beach masterplans, work has advanced 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. The reporting and decision making to progress the city centre and beach masterplans has continued with significant work undertaken in the intervening period. The Council, in December 2022, approved the next steps for the developments in both the city centre and at the beach.
- 3.153 The Council has responded to the rising cost and supply chain volatility that has been in the construction industry in a robust and consistent basis. Considering a detailed report in June 2022 at City Growth and Resources Committee, followed by a review and reprofiling of the Capital Programme in August 2022, that was considered by the Council. This led to several decisions to stop, pause, delay and retender works in pursuit of best value. The construction sector remains extremely challenging and this is reflected in a capital programme that moves the current projects forward, but adds no further capital investment.
- 3.154 In preparing the General Fund Capital Programme for 2023/24 to 2027/28 (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 2023/24 this report describes the current programme and items referred to the budget process.
- 3.155 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.

3.156 The profiling of the capital programme has been updated to reflect the latest information, including forecasting the impact of underspending in 2022/23 on 2023/24 to 2027/28.

Referrals to the Budget Process

3.157 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

3.158 Appendix 5 also includes details of capital investment that the Council can consider in setting their budgets for 2023/24, items referred to the budget process.

IMPACT ON BALANCE SHEET OF BUDGET DECISIONS

3.159 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.

Use of Reserves & Funds	Projected Balance at 31 March 2023 £m	Assumed (Use) / Contribution to Reserves 2023/24 £m	Projected Balance at 31 March 2024 £m
<i>General Fund:</i>			
Earmarked	25.885	(7.599)	18.286
Uncommitted	12.000	0.000	12.000
<i>Housing Revenue Account:</i>			
Earmarked	3.158	0.342	3.500
Uncommitted	12.927	0.500	13.427
<i>Statutory Funds:</i>			
Capital Fund	17.615	0.000	17.615
Insurance Fund	2.349	0.250	2.599
City Improvement Fund	0.330	0.002	0.332
Lord Byron Fund	0.005	0.000	0.005
<i>Restricted Funds:</i>			
Capital Grants & Receipts Unapplied	0.000	0.000	0.000
Total	74.269	(6.505)	67.764

3.160 It should be noted that the projected balances in Reserves at 31 March 2023 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. These projections emphasise the need for care when making budget decisions as the usable reserves (General Fund) are likely to be halved, consuming substantial sums in support of the 2022/23 revenue budget, including Covid-19 related expenditure that has been incurred during the year.

- 3.161 Further use of the General Fund reserves in 2023/24 will be because of the progress of specific projects and statutory requirements, such as the use of the Affordable Homes earmarked reserve that is being used to assist in the funding of our new homes in the Housing Revenue Account. Similarly the ongoing progress of transformation will be funded by the Transformation Fund.
- 3.162 Lower reserves reduce the Council's financial resilience and provide fewer opportunities to redirect or repurpose funding to support the unknown and unexpected financial implications of events out with Council control. Lower financial resilience and the degree of comfort that this provides may also result in the Council reconsidering its appetite for risk and become more cautious and averse to risks that could bring financial consequences.

4. FINANCIAL IMPLICATIONS

- 4.1 The forecast level of useable reserves that the Council has at 31 March 2023 means that reserves will, in the context of contingent liabilities and the approved Reserves Policy, remain relatively low, the General Fund uncommitted balance being £12m (only c.2.3% of Net Expenditure).
- 4.2 Savings options totalling £43.4m, plus the flexibility to increase Council Tax, are presented for consideration by Council. The savings options include the annual benefit of Service Concession flexibility that is currently available to Councils (Appendix 7), and funding that is not required to support the Non-Domestic Rates Empty Property Relief scheme, devolved to Councils from 1 April 2023.
- 4.3 Council must approve savings or income generation options to a level whereby at least a balanced budget is achieved, £46.6m, and take account of the revised Reserves Statement 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. ENVIRONMENTAL IMPLICATIONS

- 6.1 The Council budget captures all of the expenditure and income that is generated for the General Fund and as a result it is certain that there will be aspects of the resource allocation that promotes an improvement in our environment, while other resources continue to impact on our environment. It is not possible to simply switch all of the budget decisions to be environment positive, the transition will take years.
- 6.2 Included in the report is an update on the progress in implementation the Council approach to carbon budgeting (Appendix 14). The recommendations in section 2, advance the work on our carbon budgeting action plan and reporting.

7. MANAGEMENT OF RISK

- 7.1 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.
- 7.2 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:
- 7.2.1 The Council is averse to risks associated with impairing financial stewardship, internal controls, and financial sustainability.
- 7.2.2 The Council has an open appetite for short-term risks that support financial performance and mitigate negative external factors.
- 7.2.3 The Audit, Risk and Scrutiny Committee, March 2023, will be asked to review the risk appetite statement and change to a cautious (currently '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.
- 7.3 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.
- 7.4 Risks in the context of the budget are particularly important that warrant additional narrative, in particular pay and price inflation.

Pay

- 7.5 As described in paragraphs 3.40 and 3.57, Local Government has experienced a very challenging pay negotiation between Cosla and the Unions that has added cost to the pay bill for 2022/23.
- 7.6 However, the pay negotiations for 2022/23 are not yet concluded, with two bargaining groups still to be concluded, Chief Officers and Teachers, which resulted in teacher strikes taking place in recent months. The latest offer made by Cosla, and backed by funding from Scottish Government, has not yet been accepted. Until these negotiations are resolved there remains significant risk of potentially unfunded additional cost to the Council, with the consequential impact of additional financial burden arising in 2023/24 on a recurring basis. The Council would have to rely on its Balance Sheet and usable reserves if Contingencies are fully utilised during the year.

Price Inflation / Supply Chain Volatility

- 7.7 A combination of factors including ongoing market impacts from the pandemic, the UK's exit from the European Union and the Russian invasion of Ukraine affecting access to supply markets in Russia, Ukraine and surrounding area, have led to a massive rise in inflation and a cycle of market and price volatility and shortages across many commodities which is having a negative impact on the delivery of capital projects, and on revenue expenditure in the delivery of services and procurement processes carried out for affected commodities.
- 7.8 A forty-year high inflation across many parts of the world, including the UK, is presenting a significant challenge for organisations. The rate of inflation (CPI) rose during 2022 to 11.1% in October before reducing to 10.5% by the end of the calendar year, for January 2023 CPI has been measured at 10.1%.
- 7.9 Scotland Excel Supply Chain Intelligence Report, January 2023 highlighted their assessment of the financial exposure this is creating for their procurement framework agreements. This is shown in the table below:

IBISWorld Sector Title	Sector Inflation Exposure*	Relevant Scotland Excel Frameworks
Agriculture, forestry, and fishing	Very High	Frozen Foods Fresh Meat, Cooked Meats and Fresh Fish
Mining and quarrying	Normal	Roadstone Construction Materials Road Maintenance Materials
Manufacturing	Very High	Widespread across goods frameworks. Vehicle Purchase – Cars and Light Commercial, Heavy Vehicles notably Electric Vehicle Charging Infrastructure
Electricity, gas, steam, and air conditioning supply	Very High	Widespread. Most frameworks impacted
Water supply, sewerage, waste management and remediation activities	Very High	Organic Waste Residual and Recyclable Waste Education Materials Janitorial Products
Construction	Very High	New Build Residential Energy Efficiency Contractors
Wholesale and retail trade	Very High	Groceries and Provisions Catering Sundries
Transportation and storage	Very High	Widespread, most frameworks affected directly or indirectly
Accommodation and food service activities	Moderate	Care Homes for Adults with LD Children's Residential Care Community Meals Secure Care
Information and communication	Very High	Social Care Case Management
Financial and Insurance activities	Moderate	Security Services and Cash collection Sherriff Officers
Real estate activities	Moderate	Not applicable

Professional, scientific, and technical activities	High	Engineering Consultancy Building Construction Consultancy Energy Advice
Administrative and support service activities	Very High	Social Care Agency workers
Education	Moderate	Employability Services
Human health and social work activities	Moderate	Care and Support Services Fostering
Arts, entertainment, and recreation	Very High	Bikeability Scotland Training providers
Other service activities	High	Pest Control

Source: IBIS World, Nov 2022

Exposure Level Data:

- Normal – deviates by less than or equal to 0.5 percentage points from 2% target.
- Very Low - deviates by less than or equal to 1 percentage points from 2% target.
- Low - deviates by less than or equal to 2 percentage points from 2% target.
- Moderate - deviates by less than or equal to 4 percentage points from 2% target.
- High - deviates by less than or equal to 6 percentage points from 2% target.
- Very High - deviates by more than 6 percentage points from 2% target.

*Industry inflation exposure in the United Kingdom is measured as the absolute average weighted deviation of constituent CPIH industry inflation elements from the Bank of England target of 2%.

Source: Scotland Excel Supply Chain Intelligence Report, Executive Briefing, January 2023

7.10 Inflation of this level is very different to that experienced in recent years and places a new risk on the Council, where the likelihood and impact of costs rising faster than budget available is increased.

7.11 The importance of the Council's robust financial management arrangements and process of reporting cannot be understated to maintain full and open understanding of the Councils financial position. Being averse to the risks of impairing financial stewardship, internal controls, and financial sustainability only emphasises the care that must be taken in maintaining that discipline. It is anticipated that the delivery of the savings and income generation that are approved in the budget for 2023/24 will be more challenging than ever with the need for added scrutiny providing further assurance.

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	Use of the General Fund fails to achieve intended strategic objectives.	Commissioning approach and service design built around stretch outcomes in the LOIP.	L	Yes
Compliance	Not setting a balanced budget and setting council tax.	Scrutiny and checking of budget proposals by S.95	L	Yes

	Not approving recommendations results in non-compliance with law or policy.	<p>Officer, reports and budget pack prepared with appropriate detail to enable and support decision making.</p> <p>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.</p>	L	Yes
Operational	Pandemic restrictions undermine budget assumptions on service delivery.	Scottish Government funding announced to date for 2023/24 to take account of changes experienced in year.	M	Yes
Financial	Assumptions and judgements used for budget model and options are very different from what the Council faces in 2023/24 leading to additional action having to be taken during the year.	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; recommendation for the Chief	H	Yes

		Executive to monitor the situation and report.		
	Poor financial sustainability	Report recommends approval of recurring savings, avoiding the use of one-off funding to balance the budget; Process in place for regular updates of medium-term financial position including recognition of potential future liabilities.	M	Yes
	Poor management of large and complex budgets.	Regular review of financial information by services and corporately by Elected Members.	M	Yes
	Non-delivery of savings options leading to overspends against budget.	Savings options are assessed in terms of deliverability; increased scrutiny through CMT.	M	Yes
	Variation in tender prices for capital projects, following procurement against the costs assumed at the time of project approval.	Use of suitably qualified staff or external body to quantify and review indicative project costs.	M	Yes
	Insufficient funding streams to pay for voluntary severance costs that are assumed.	Recommendation to implement the Service Concession flexibility that would provide for funds to be drawn.	L	Yes
	Anticipated income from planning agreements (e.g.	Regular monitoring of financial data.	M	Yes

	section 75 agreements) are not received due to market conditions/economy meaning less resource available for infrastructure interventions.			
Reputational	Failure to properly manage finances including the potential impact on the Council's credit rating.	Regular review of financial information by services, CMT and Elected Members throughout the financial year.	L	Yes
	Focus on cuts may have a negative impact on citizens' view of service delivery	Highlight positive changes achieved despite financial constraints.	M	Yes
Environment / Climate	Failure to recognise the local vision and national targets and to make choices that support the delivery of target.	Service redesign work will consider, where appropriate, the environmental impact of changes.	M	Yes

8. OUTCOMES

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.	
	Impact of Report
Prosperous Economy	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 12, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.
Prosperous People	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 12, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.

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.	
	Impact of Report
Prosperous Place	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 12, Commissioning Intentions, where it is described how the stretch outcomes intend to be achieved.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights	<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 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.</p>
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	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.

	The screening forms and Integrated Impact Assessments, where required, are available through the link in Section 9.
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10. BACKGROUND PAPERS

Scottish Government Finance Circulars
CIPFA "The Prudential Code for Capital Finance in Local Authorities
Equalities Impact Assessments & Screening can be viewed [here](#)

11. APPENDICES

Appendix 1 – Projected Balance Sheet as at 31 March 2023
Appendix 2 – Financial Resilience Framework 2022
Appendix 3 – Prudential Indicators
Appendix 4 – General Fund Capital Programme 2023/24 to 2027/28
Appendix 5 – Capital items referred to the budget process
Appendix 6 – Reserves Statement 2023
Appendix 7 – Service Concession Flexibility
Appendix 8 – Building the Budget
Appendix 9 – Revenue savings included in Redesign
Appendix 10 – Fees and Charges proposals
Appendix 11 – Revenue items referred to the budget process
Appendix 12 – Commissioning Intentions
Appendix 13 – Service Standards
Appendix 14 – Aberdeen City Council Carbon Budget 2023/24
Appendix 15 – Medium-Term Financial Strategy assumptions
Appendix 16 – Contingent Liabilities

12. REPORT AUTHOR CONTACT DETAILS

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