

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	23 August 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Medium Term Financial Strategy for the Council's General Fund, 2023
REPORT NUMBER	RES/23/250
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Jonathan Belford
TERMS OF REFERENCE	21

1. PURPOSE OF REPORT

- 1.1 The purpose of a Medium Term Financial Strategy (MTFS) is to pull together in one place all known factors affecting the financial position and financial sustainability of an organisation over the medium term. Furthermore, the purpose is to draw out the scenarios that the Council faces and to describe the approach to addressing the conclusions.

2. RECOMMENDATIONS

That the Council: -

- 2.1 Note that the Scottish Government published its latest Medium Term Financial Strategy in May 2023. This indicates that while the Scottish Resource Budget is increasing up to 2027-28, in both cash and real terms, it is not expected to rise at the same rate as the spending bill, creating a growing funding gap over time;
- 2.2 Note that in light of the deficit in the Scottish Budget forecast as part of the Scottish Governments MTFS, May 2023, and expectations for Local Government included in the Resource Spending Review, published in May 2022, the future funding assumption within the MTFS has been revised to flat cash for the period through to 2025/26, with a 1% increase thereafter. Further information will be available once the Scottish Budget for 2024/25 is published in December 2023 and the Local Government Settlement is issued. At this point the MTFS model will be updated to reflect the latest data;
- 2.3 Approve the Medium Term Financial Strategy for the General Fund, 2023;
- 2.4 Note that the Strategy relies on delivering its intentions contained in the TOM1.2 report [Council, August 2022, CUS/22/171] which describes the approach the Council intends to take through transformation and multi-agency working to contribute towards closing the gap between income and expenditure forecast;

- 2.5 Note the reported impact that pay and price inflation and supply chain volatility is continuing to have on our current financial year [Finance & Resources Committee, August 2023, RES/23/255] and that the impact is anticipated to continue to have an effect on the future funding gap;
- 2.6 Note that the commitments contained within the Partnership Agreement, adopted on 18 May 2022, as part of the 2023/24 budget setting process were prioritised and where appropriate the decisions taken by the Council have been incorporated into the MTFS to reflect the financial implications of those decisions;
- 2.7 Note that a review is being undertaken of the Capital Programme, in light of the financial environment, and the best value considerations, with a report being provided to the Finance and Resources Committee in September 2023;
- 2.8 Note that the current Capital Programme, as included in the Council Financial Performance Quarter 1, 2023/24 report, is the basis for capital financing costs and debt levels referred to in the MTFS and following the regular review of the Loans Fund Repayment Policy, approve the policy for 2024/25 and beyond as described in Table 5 of the MTFS;
- 2.9 Note the 2024/25 Budget will be discussed and set by the Council in February/March 2024 following an extensive public engagement exercise as required by the Scheme of Governance and Budget Protocol. Councillors will be issued with full detail of the Phase 1 consultation referred to in Section 5.10 of the Appendix. For Phase 2 consultation, this will be based on the central scenario shown in the MTFS 2023 and the results of this will be reported to Council in December 2023;
- 2.10 Note that the Council's Financial Resilience Framework shows that the value of useable reserves has continued to rise on the back of additional funding being provided late in financial years for specific purposes. The General Fund has underlying resilience of £12m (uncommitted reserves) which is a falling percentage of the net General Fund budget. The Council should consider if, in the current financial climate, that is sufficient and decide during the 2024/25 budget setting process whether to budget for this to increase;
- 2.11 Note that the strength of the Council Balance Sheet as at 31 March 2023 (net worth is £1.5bn) is broadly similar to the year before. Key changes are a reduction in long-term pension liabilities (down £0.1bn) offset by an increase in total borrowing (up £0.1bn);
- 2.12 Note that the Resilience Framework identifies that the total value, and cost of servicing, debt is rising. The rising cost of debt will have to be managed and it is notable that short-term debt has risen during 2022/23, which has been a deliberate choice to avoid locking into rising interest rates for the long-term when financial forecasts would suggest the cost of borrowing reducing over the short to medium term;
- 2.13 Note that the options available to the Council for managing rising debt levels include reducing the scale and scope of the General Fund Capital Programme

or extending it over a much longer period. With the costs rising, as noted at 2.12, these capital financing costs are forecast to become a larger proportion of the Council's net income. The Council must consider if the proportion of revenue resources allocated to capital financing is appropriate, as per the Prudential Code, and it should make changes as necessary as part of the 2024/25 budget setting process; and

- 2.14 Note that the Chief Officer – Finance will continue to develop the Financial Resilience Framework with a view to embedding it across the councils financial planning, financial monitoring and financial year end reporting arrangements.

3. CURRENT SITUATION

- 3.1 The Council's MTFFS was approved by the City Growth and Resources Committee on 24 August 2022, with the financial forecasts updated as part of the budget setting process for financial year 2023/43, approved in March 2023.
- 3.2 Having this overarching document is increasingly important in an environment that has continued to be more challenging and more complex, which has seen the effects of global events such as Russia's invasion of Ukraine and resulting war, and the supply chain volatility and energy price shocks. Inflation peaked last year, according to the Bank of England, and while the turbulence of high inflation, not seen for 40 years, appears to be now moving in the right direction the cost of living crisis that has been left behind, with higher borrowing costs and higher prices leaves local government and public services with high demand and very limited funding.
- 3.3 The Scottish Government published its latest revised Medium Term Financial Strategy (SGMTFS) in May 2023, which followed last year's publication of the first Resource Spending Review since 2011. The spending review was accompanied by a Review of Capital Spending. The SGMFSS comments that it "...demonstrates that the fiscal environment has become even more challenging than when the Resource Spending Review (RSR) was published (May 2022)."
- 3.4 After taking account of the financial environment, the information provided by Scottish Government and the approved budget setting decisions for 2023/24 an updated Medium Term Financial Strategy for the Council's General Fund has been completed and is attached as Appendix 1.
- 3.5 The Target Operating Model (TOM1.2) [Council, August 2022, CUS/22/171] presented the Council with a way forward to transform services and to contribute to closing the future budget gap. Programmes of work include eight on transformation of Council services and four that cut across the Council and our partners as part of our multi-agency transformation approach.
- 3.6 Together, the MTFFS and TOM1.2 documents represent the fiscal framework for Aberdeen.
- 3.7 The MTFFS provides the Council with an overview of the financial situation and how this is evolving in these uncertain times, and to consider how sensitive the

financial situation is to changes in income and exposure to demand and inflation.

- 3.8 The strategy draws on a range of information and data and relies on scenario planning to express a range of financial consequences that will only become certain with actual experience and with more and better information over time.
- 3.9 Scenarios do allow us to develop the actions and activities needed to balance our finances, and a Central Scenario is presented alongside Upside and Downside Scenarios, giving us an insight into the spectrum of difficulty that the Council faces.
- 3.10 The strategy sets out a range of principles for income, expenditure and capital investment that are designed to support financial resilience and financial sustainability and these are included at paragraphs 1.1 to 1.20 of the Strategy.
- 3.11 The question of financial resilience is one that continues to be very important to local government, greater emphasis is being placed on the test of 'going concern' than ever and while local government is presumed to be a going concern it is clear from s.114 notices in England, for example, that this cannot be taken for granted. The report on the MTFs last year instructed the Chief Officer – Finance to continue to develop the framework for financial resilience and additional data has been included and this has led to further recommendations.
- 3.12 The Financial Resilience Framework was populated with information from the Council's Annual Accounts, for the three years up to 31 March 2022 and this has been updated to include the unaudited Annual Accounts for 2022/23. The information is therefore the cumulative effect of decisions taken over many years and does not by itself reflect what the future position may look like. I have made reference to the table at 6.36 of Appendix 1, to whether the ratio appears to be stable or improving ☺ or if we should be watching it ☹. The figures on their own provide information to provide assurance to the Council that the underlying strength of the finances are healthy given the volatile and high-cost environment we are working in, i.e. it has financial reserves on which to draw in the event of further financial shock, but that resource is finite and non-recurring.
- 3.13 It is acknowledged that the benefits from having this data are yet to be fully realised, with further work and comparison required. That said there is sufficient insight to highlight indicators that should be carefully considered when making budget decisions going forward.
- 3.14 I have included Directors of Finance Section for Local Government in engaging in the development of the various strands of the framework with a view to the Financial Resilience Framework developed by the Council, being adopted sector wide.
- 3.15 I will again provide commentary and data as part of the 2024/25 budget setting process, and I will continue development work in conjunction with partners.

4. FINANCIAL IMPLICATIONS

- 4.1 There are none arising directly from the report. The Medium Term Financial Strategy 2023 sets out the financial implications for the Council's General Fund and will be the financial parameters within which the annual budget setting process will be undertaken.
- 4.2 The budget engagement and consultation that the Council will undertake, as Phase 2 of the Budget Protocol, will use the Central Scenario presented by in the MTFs, which is a gap of £82.745m over the next four years, the end of the current Council term. This sits in the context of the whole five year MTFs which presents the financial challenge as follows:

After Assumed Savings:	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
General Fund Budget Gap	£M	£M	£M	£M	£M	£M
Downside Scenario	0	65	124	168	201	240
Central Scenario	0	35	62	76	83	95
Upside Scenario	0	10	18	13	-2	-3

5. LEGAL IMPLICATIONS

- 5.1 While there are no direct legal implications arising from the recommendations of this report, there are additional reporting requirements due to the London Stock Exchange listing, for example the requirement to notify them ahead of publication of the report.
- 5.2 The financial constraints that are now faced by local government sector and by the Council mean that serious questions have to be raised as to the affordability and sustainability of Council services and the scope, quantity and quality of them going forward challenging at what point statutory services cannot be delivered.
- 5.3 The Council has a statutory duty to set Council Tax and a balanced budget, and the Strategy sets out the related challenges and the parameters within which this will have to be done. Any failure to comply with this duty would leave the Council open to legal action and/or regulatory intervention.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 While there are no direct environmental implications from the recommendations in this report, the development of the MTFs must have a reference to the environmental objectives and targets that the Council has a duty to deliver on. Those duties come at a cost and where possible the scale of the challenge has been described, it is clear however that an enormous amount of further work is required in order to quantify the detailed proposals, business cases and funding solutions to meet of those duties.
- 6.2 The MTFs will continue to take account of the latest information in relation to our actions towards Net Zero as it is regularly refreshed.

7. MANAGEMENT OF RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Failure to recognise the consequence of the economic and local circumstance could lead to poor use of resources	The Strategy is in place to look forward into the medium term and plan for the future to improve the likelihood of resource allocation being aligned to strategic outcomes.	L	Yes
Compliance	Failure to set balanced budget.	A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March.	L	Yes
Operational	Failure to take account of the financial constraints described in the MTFS and to change operational arrangements to be affordable could lead to unplanned spending reductions.	A robust process is in place to ensure budgets are prepared and presented for approval by the Council at the start of March.	L	Yes
Financial	The assumptions are insufficiently sensitive to the situations that might arise, resulting in a larger financial challenge.	The strategy is based on scenarios that present a range of potential impacts for the Council's finances. It will be kept under review. Financial planning assumptions are subject to two reviews annually, the MTFS and the Annual Budget report.	M	Yes

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

8. OUTCOMES

<u>COUNCIL DELIVERY PLAN</u>	
Impact of Report	
Aberdeen City Council Partnership Agreement	Financial planning, budget setting and resource allocation are all enablers for the delivery of the outcomes and regular performance reviews ensure that the Council's stewardship and financial management are robust.
<u>Aberdeen City Local Outcome Improvement Plan</u>	
Prosperous Economy Stretch Outcomes	The Council continues to invest in front-line services across its statutory responsibilities as well as capital infrastructure. Investment in the city will have a positive impact on the economy.

Prosperous People Stretch Outcomes	Robust and effective management of the Council's finances will ensure that services can continue to be provided.
Prosperous Place Stretch Outcomes	Investment will enhance the place by creating a better and more vibrant city in which to live.

9. IMPACT ASSESSMENTS

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

10. BACKGROUND PAPERS

None.

11. APPENDICES

Appendix 1 – Medium Term Financial Strategy for the Council's General Fund 2023

12. REPORT AUTHOR CONTACT DETAILS

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