



ABERDEEN ECONOMIC POLICY PANEL REPORT

DECEMBER 2021



Contents

Foreword	page 3
The Panel	page 4
Summary	page 5
2021 Recommendations	page 6/7
1 Economic Performance	page 8
2 Longer Term Strategy	page 13
3 Policy Coordination	page 29
4 Long Run Financial Position	page 30

Foreword

This is the fourth annual report of the Aberdeen Economic Policy Panel. In producing this report and in making its recommendations, the Panel has monitored and considered developments in the North East, Scottish, UK, and international economies. The Panel has undertaken its own analysis and considered research relevant to its work.

The Panel's approach has been to review the latest economic data to gain an up-to-date picture of the North East economy, building on the broader longer-term trends described in the 2018, 2019 and 2020 reports.

The Panel has also provided a forum for discussion of emerging issues in relation to the future prosperity of the Aberdeen and Aberdeenshire economies with key stakeholders.

Panel members have met with various stakeholders including: Aberdeen and Grampian Chamber of Commerce (AGCC); Aberdeen City Council political leaders and officers; Aberdeenshire Council political leaders and officers; Aberdeen City and Shire Hotels Association; Aberdeen Harbour Board; Aberdeen International Airport; Bon Accord Centre; BP; Burness Paull; CBRE; Deloitte; Elevator; ETZ Ltd; Federation of Small Businesses (FSB); Handelsbanken; Internet for Business; Knight Frank; KPMG; Net Zero Technology Centre; Offshore Renewable Energy Catapult; Oil and Gas Authority; Oil and Gas UK; Opportunity North East (ONE); P&J Live; Pinsent Masons; Robert Gordon University; Royal Bank of Scotland; Ryden; The Scottish Council for Development and Industry (SCDI); Scottish Government officers; Shell; Sir Howard Bernstein; Skills Development Scotland (SDS); Union Square; University of Aberdeen; VisitAberdeenshire; and VisitScotland.

Although the views in the report are that of the Panel, the assistance of Aberdeen City Council, external stakeholders and local industry in the preparation of this report has been greatly appreciated.

Notes

Geographic definition

For the purposes of the analysis, the North East refers to the Aberdeen City Council and Aberdeenshire Council local authority areas.

Bond rating

Moody's awarded Aberdeen City Council an Aa2 rating with a negative outlook in October 2016. This rating was one notch below the UK Government, and is the third highest level out of 21 categories, placing the Council in a high-grade investment bracket. The rating is reviewed by Moody's on an annual basis. Moody's downgraded Aberdeen City Council's rating to A1 from Aa3 in 2020, in line with the same one notch downgrade to the UK sovereign rating. The outlook was upgraded from negative to stable.

It is important in terms of investor confidence in Aberdeen City Council that the authority maintains its credit rating level. The annual credit rating assessment involves an analysis of the Council's financial and institutional framework, as well as an assessment of the economic performance of Aberdeen and the wider region. In terms of the economic analysis, and as in previous years, the independent economic commentary in this report will be used to not only support the Moody's annual review, but also provide the city with assurance on the medium-to-long-term economic outlook of Aberdeen and the region to investors.

The Council approved the appointment of an independent Economic Policy Panel in March 2017 to provide independent commentary on the state of the Aberdeen economy in the form of an annual report each year from 2018 to 2020. The Panel has since been reappointed to produce a further three annual reports from 2021 to 2023.



A large, modern conservatory with a complex glass and steel roof structure. The interior is filled with lush green plants and trees. A person in a dark jacket is standing on a wooden walkway with a black metal railing, looking out at the vegetation. The lighting is bright, suggesting a sunny day.

The Panel

Doctor Hanan Morsy, Dougie Peedle and Professor Graeme Roy prepared the 2021 final report.

Dr Hanan Morsy: A global strategist, macro-economic and public policy expert, Dr Morsy has extensive experience leading top-quality economic research, policy work for international financial institutions, including the International Monetary Fund, the European Bank for Reconstruction and Development, the African Development Bank, and the private sector. She has provided strategic advice and quantitative policy analysis to national governments on macroeconomic, fiscal and financial issues, as well as on private sector development and structural reforms.

Dougie Peedle: As well as being a member of the Aberdeen Economic Policy Panel, Dougie is the economist member of the Armed Forces Pay Review Body, an Economic Associate for Pro Bono Economics and Head of Policy for Scottish Wildlife Trust. From 2004 to 2018 he was Chief Economic Adviser to the Government of Jersey and prior to that worked for 10 years in London as Deputy Chief Economist at EEF, International Economist at Rio Tinto and Senior Economist at the CBI. He is a graduate of the University of Aberdeen and the Scottish Masters Programme in Economics.

Professor Graeme Roy: Graeme is Professor of Economics and Dean of External Engagement in the College of Social Sciences at the University of Glasgow. Graeme is a former director of the Fraser of Allander Institute (FAI) and Head of the Economics Department at the University of Strathclyde, and a former Senior Economic Adviser in the Scottish Government.

Summary

This is the Panel's fourth annual report and the first of its second three-year term. The economy continued to face challenges from the Covid-19 pandemic and the recent uncertainty created by the emergence of the Omicron variant; the downturn in the oil and gas sector; Brexit and the transition to Net Zero. In this context, the Panel has reflected on its recommendations over the first three years and continued to develop them to help the North East build on the progress made and further enhance the long-term strategic economic approach.

The structure of the North East economy and the fact that the pandemic followed on the heels of the downturn in oil and gas have translated into disproportionate impact of Covid-19 on the region's economy and labour market. Uncertainty about the implications of Omicron and the risk of further restrictions on economic activity poses an additional threat to the economic recovery in the short-term in the North East and the rest of the UK.

Nonetheless, our report last year emphasised that during uncertain and difficult times it is important to focus on the long-term opportunities and challenges that the region will face. This year's report continues in this vein with further focus on the factors critical for the long-term success of the region: economic diversification, skills, infrastructure investment and energy transition. The Panel continues to encourage a relentless focus on clear prioritisation, co-creation of policy with stakeholders and timely delivery.

Recent progress on the City Centre Masterplan and plans for redevelopment of the Beachfront are welcome first steps in meeting our recommendation from last year that policy focuses on making Aberdeen a resilient and attractive place to live, work and invest. As the region sets out on this journey there is still a need for plans to be guided by a new Route Map for the Transformation of Aberdeen the Place, that is flexible to changing economic conditions and has a clear focus on implementation. This needs to be complemented by the development of a new Regional Economic Strategy in 2022 and further clarification on what the region values in terms of inclusivity and wellbeing.

The future success of the North East is critical for the long-term health of the Scottish and UK economies and the region cannot be expected to meet the complex challenges ahead alone. A more joined up and coordinated approach across local, Scottish and UK governments on all issues that impact on regional economic development would aid long-term planning in Aberdeen.

This year's recommendations are listed on the following page and while they are entirely the views of the Panel we are very grateful for the support we received from the many stakeholders we met from across the region and the assistance of Aberdeen City Council officers in the preparation of this report.



Image courtesy of Aberdeen Harbour Board

2021 Recommendations

In our first three annual reports from 2018 to 2020 the Panel made a range of long-term recommendations to improve the performance of the economy. Most of these recommendations remain unchanged as these are long-term challenges the North East faces to successfully become the UK energy hub and diversify its economy away from fossil fuels. A long-term approach that delivers continuity in overall approach will be crucial to the success of the North East economy in the years to come.

In addition, we have identified a set of new recommendations which build upon those from previous reports. These have been developed within this report in the appropriate sections of the long-term challenges to which they relate. These new recommendations are presented below.

1. With the Scottish Government due to publish this year the National Strategy for Economic Transformation for the next ten years the Panel are of the view that 2022 is the right time to renew the strategy for the North East. The approach must build on the progress made in recent years and continue to concentrate on long-term priorities. It must put Aberdeen the place at its heart and focus on the region's approach to sustainable, inclusive economic development and improved wellbeing. This should be underpinned by a clear implementation plan with detailed SMART objectives.
2. On diversifying the economy, the Panel concludes that since our first report the long-term challenges facing the North East economy have intensified given the prolonged downturn in the oil and gas sector, Brexit, the transition away from the dependency on oil and gas and the pandemic. This means that diversification is even more important for the long-term success of the North East economy. This requires a continued focus on the region's growth sectors but, as said last year, a need to go further and faster in attracting new businesses and people from outside these sectors reinforced by the approach to making Aberdeen the Place an attractive location to live, work and invest both now and in the future.
3. The Panel welcomes recent initiatives to support the regional labour market but would reiterate the pressing need to develop and publish an updated skills strategy following engagement with all stakeholders and that takes account of the existing skills gaps and is tailored towards future labour market demands. The strategy must support the approach in the renewed Regional Economic Strategy and the strategic direction set out in the Route Map to Aberdeen the Place. It should be SMART and supported with a clear delivery plan. The new strategy should join up the range of existing activity such as the skills pathfinder and build upon the existing collaboration across public sector, industry and educational institutions.
4. We still welcome the partnership approach that exists in the North East, with numerous bodies including the Councils and ONE making a significant contribution to the long-term resilience of the North East. It is vital the Council continues to prioritise economic development and diversification as this will be key to building resilience in the long run. The Panel's recommendations for a renewed focus on the region's approach to sustainable, inclusive economic development and improved wellbeing and a new route map for Aberdeen the Place will help embed greater resilience in the economy over the longer-term.
5. The Panel welcomes the further development planned for North East Performs and the Net-Zero Dashboard as this monitoring and evaluation is an essential part of developing resilience in the changing economy. We reiterate the need to take the lead by defining the North East's approach to Wellbeing and embedding this in the Regional Economic Strategy. The economic strategy needs to reflect the region's wellbeing values and have them amongst the objectives of the strategy.
6. The COVID-19 pandemic has exacerbated inequality and brought additional challenges to inclusion. The Panel recommends that the development of a renewed Regional Economic Strategy in 2022 provides the perfect opportunity to expand on the region's approach to fostering inclusion and further embed it in the region's economic approach.



7. The Panel continues to recommend careful prioritisation of infrastructure investment options and that the region follows the lead of the Infrastructure Commission to include natural infrastructure in the decision-making process. The aim should be to complement the new Local Development Plan and maximise the impact of all such investment on the attractiveness of Aberdeen as a place to live, invest and work. This will include but not be limited to enhancing transport and digital connectivity, the natural environment and supporting the Regional Economic Strategy and approach to wellbeing.
8. There has been welcome investment to support the North East's drive to Net Zero and to increase Aberdeen's connectivity with the central belt. As we have mentioned in previous reports, we continue to urge Aberdeen City Council and other regional stakeholders to push both the UK and Scottish governments to maintain the urgency and pace of these and future investments in order to ensure that the North East energy transition, critical to the UK's energy transition, is successful.
9. The Panel's overarching recommendation in its 2020 report was for a new Route Map for the Transformation of Aberdeen the Place, that is flexible to changing economic conditions and has a clear focus on implementation. The first steps have been taken with the development of the City Centre Masterplan and new proposals for the Beachfront and this recommendation is reiterated in this report. A full route map can help set the overall strategic approach for the region in the long-term and help coordinate the wide range of different strategies that are in place or under development and give added focus to the new Regional Economic Strategy.
10. A more joined up and coordinated approach across local, Scottish and UK governments on all issues that impact on regional economic development would aid long-term strategic planning in the region and be welcomed by the Panel.
11. In light of the long-term financial uncertainty, we reiterate the need to conduct sensitivity analysis of the region's local government finances including the level of Scottish Government funding that will be provided in the Local Government Settlement. This is necessary to highlight the ongoing structural pressures the Council faces and encourages discussion and planning about how they could be addressed. We also continue to highlight that the conversation must extend beyond the region and include national discussion of how new mechanisms can give Councils the financial flexibility required to address the multiple challenges the regional economies face.

1 Economic Performance

As discussed in previous reports, Aberdeen and the wider North East region is one of the most prosperous parts of the UK, with a higher than average GVA per head. It has historically had a strong labour market where employment rates, earnings and productivity have been amongst the best performing regions in the UK. It has a reputation for hosting an innovative and international business base with consistently above average business creation that invests heavily in research and development (double that of the Scottish average)¹.

For over five decades, the economy has been anchored around the oil and gas sector but is increasingly supported by other sectors including a growing tourism, food and drink, life sciences and digital sectors as well as a broader non-fossil-fuel-based energy sector to which it looks to diversify.

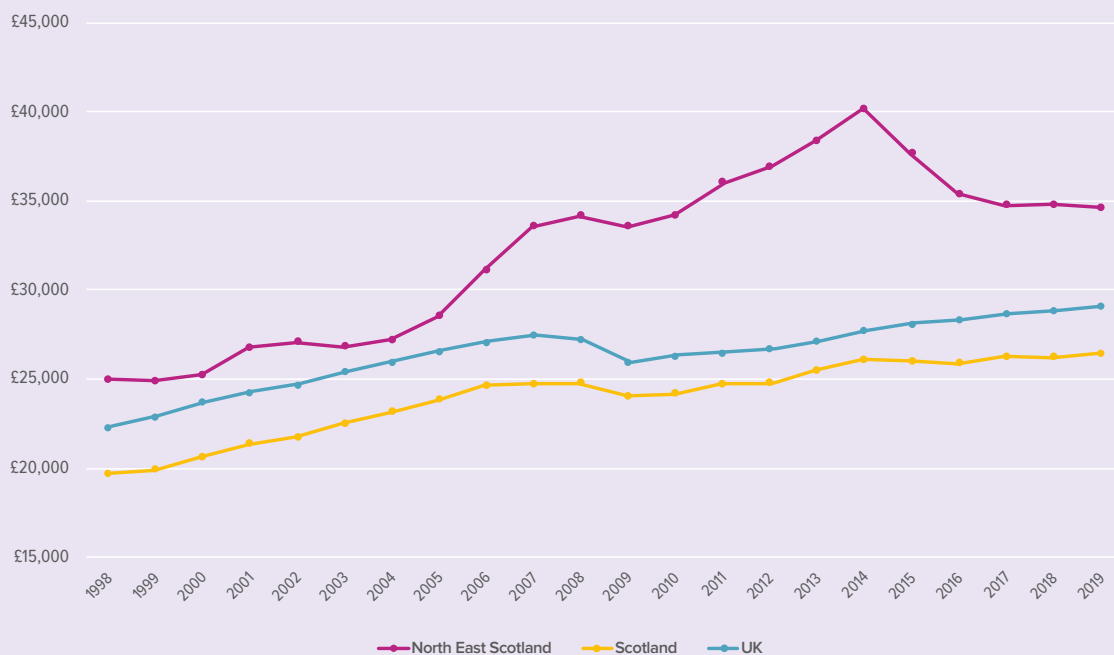
It has, however, faced challenges in recent years even before the COVID-19 pandemic. The downturn in oil and gas, which started in 2014 but had not fully recovered even by the start of the pandemic, led to a decline in relative economic performance across the region.

The number of employees in the North East region fell by over 15,000 between 2015 and the start of the pandemic in early 2020.

Despite this, on a GVA per head basis as shown below, the North East remained some 31% and 19.3% above the Scottish and UK averages respectively in 2019, with earnings also higher than the national average.

North East Scotland Real Gross Value Added Per Head, 1998-2019

Per Head of Population; CVM=2018
Source: ONS



As we discussed in last year’s report, and just like other economies in Scotland and the rest of the world, Aberdeen’s economic performance has been adversely affected by the pandemic. The pandemic has had a particularly acute impact, however, on the North East region, in part due to the sector mix of the local economy and other factors such as the additional local lockdown in August 2020. Aberdeen City Centres offline sales (those sales made in person), have fallen throughout the pandemic and have struggled to recover to pre-pandemic levels, recovering at a slower rate than other UK cities².

Overall, as shown below, even before the pandemic there had been a slight fall in employment rates in the North East relative to the UK and Scottish picture. Aberdeen and Aberdeenshire’s employment rate at the end of 2019 was 78.5% and 80.9% respectively, compared to 74.5% in Scotland and 75.9% in the UK. However, during the pandemic the fall in employment rates in Aberdeen City and Aberdeenshire has been even more pronounced. By the end of 2020, Aberdeen and Aberdeenshire’s employment rate was 72.6% and 75.0% respectively, compared to 72.2% in Scotland and 74.3% in the UK³.

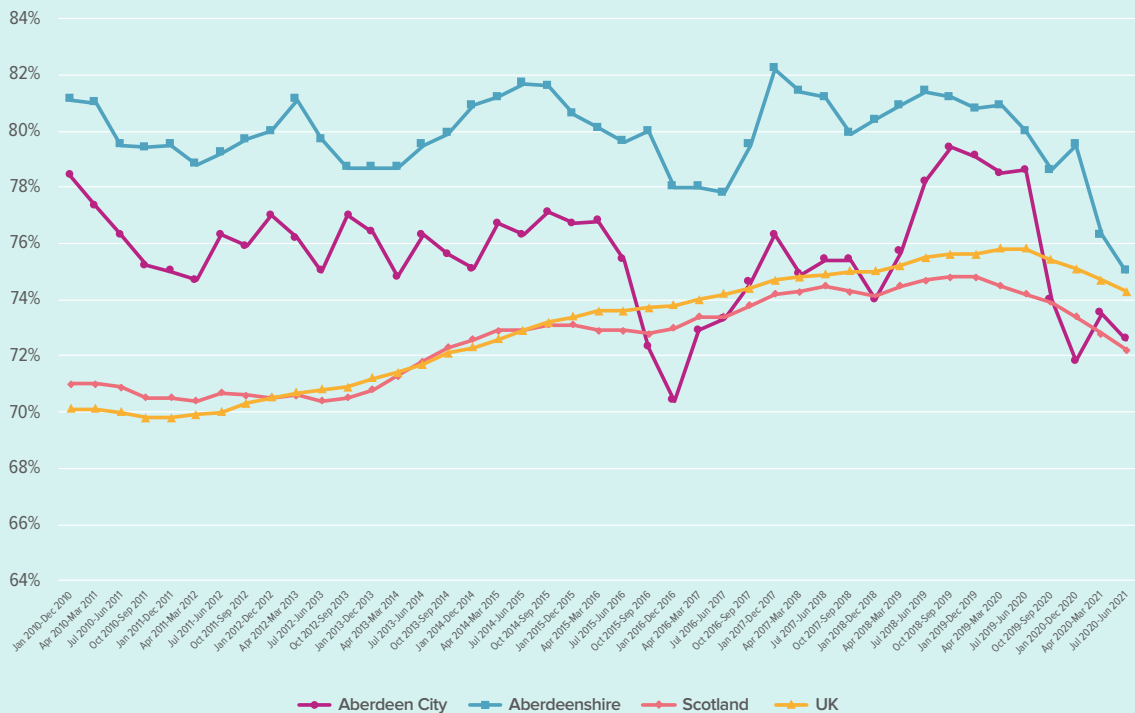
¹ Business Expenditure on Research and Development 2019

² Centre For Cities: High Street Recovery Tracker: Nov 2021

³ Annual Population Survey July 2020-June 2021

Employment Rate - Aberdeen, Aberdeenshire, Scotland & UK (2010-2021)

Percent of resident -based population aged 16 to 64
Source: ONS



This fall in employment is mirrored by the increase in people claiming social security benefits. In Aberdeen City for example, Universal Credit claims have increased from 7,966 in March 2020 to 17,605 individuals in September 2021 - a 121% increase with a peak in March 2021 of 18,523 individuals. This is a higher rise than the Scottish average, although the overall Universal Credit rate remains lower in Aberdeen City than the national figure.

Aberdeen has also suffered a proportionately greater fall in job vacancies posted than other Scottish cities and relative to the Scottish average, and has been slower to recover to pre-pandemic levels than elsewhere.

Similarly, average earnings of workers in the North East have been impacted more significantly than the Scottish and UK average as shown in the table below. A large proportion of high earners in the North East are in the energy industry, with analysis of the earnings data confirming that higher earners had proportionately greater falls in earnings in the North East compared with elsewhere in the UK. The North East is particularly reliant on mining and quarrying activities where output and employment are still significantly below February 2020 levels⁴.

Nominal Annual Earnings - Workplace Based				
Date:	Aberdeen City	Aberdeenshire	Scotland	UK
2019	32,915	29,988	30,000	30,378
2020	35,169	31,235	31,604	31,487
2021	32,747	28,959	31,672	31,285

Source: ONS



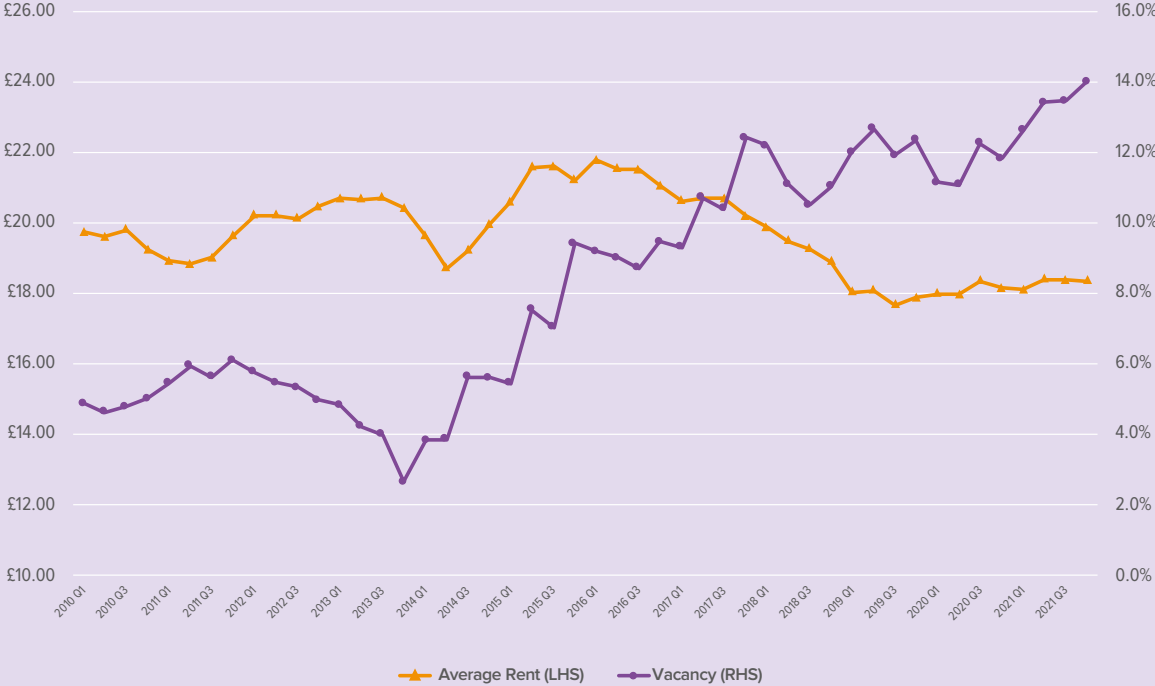
⁴ Scottish Fiscal Commission: December 2021

During the pandemic large parts of the economy, particularly the hospitality, leisure, and entertainment sectors, were effectively shut down. Over the past 18 months, data from Google mobility show trends in mobility in retail and recreation, workplaces and public transport locations remain well below the baseline trends of February 2020.

All of this has had knock-on implications for the wider city economy, beyond the sectors immediately impacted. For example, the chart below shows office rental prices have continued to fall to £18.38 per square foot in Q3 of 2021 from a high of £22.38 in Q1 of 2016. Aberdeen has observed a 16.1% drop in average office rents in the past 5 years, greater than other parts of the UK which have also had a decline in that time. Office vacancy rates have also continued to rise, now standing at more than 13% (up from around 3% in 2014).

Office Market Vacancy Rate and Average Rental Price - Aberdeen, 2010-2021

Source: CoStar



A similar trend has been observed in residential property. After reaching a peak in September 2014, Aberdeen City average monthly house prices fell 32% to a new low in September 2020. However, since then prices have risen 11% in the North East and 12% in Scotland as activity has picked up again.

Mitigation

As we discussed last year, the UK, Scottish and local governments reacted to the crisis with a range of support measures for individuals and businesses.

Collectively these measures helped to mitigate some of the worst effects of the various lockdowns – and other restrictions – placed upon our economy. For example, far from the predictions of an increase in unemployment to 10% when the pandemic started, unemployment in the UK only rose 5.0% by the end of 2020⁵. Many businesses were effectively able to mothball operations for several months, supported by government loans and grants.

⁵ Annual Population Survey July 2020-June 2021

Alongside national initiatives, such as the Furlough Scheme, the City Council developed a Socio-Economic Rescue Plan. It provided:

- support to business to alleviate cashflow pressures, for example with COVID-19 Business Loans
- labour market responses, including employability schemes for office-based occupations being displaced and with the Energy Transition Skills Academy helping workers to develop the skills needed to help support the region's transition to the net zero agenda
- wellbeing responses, such as a Business Response Hub which facilitated grants to Businesses, providing information, applications, a free support line and included the delivery of a Spaces for People project around travel and physical distancing in the city
- health responses, such as the roll-out of Mental Health First Aider scheme across public sector family, ALEOs and contractors
- education responses, such as developing an accredited course for young parents to aid them back into education or employment using Google classroom as an online means of supporting pupils

Consistent with our recommendations on the need to focus upon the long-term, we note that progress against this Socio-Economic Rescue Plan has been reviewed this year with the focus now shifted from 'immediate response' towards medium and longer-term recovery. Consistent too with last year's recommendations, key areas of focus include reviews of the City Centre Masterplan and Aberdeen Beachfront.

A Cautious Recovery with high uncertainty around outlook

At an aggregate level, as shown in the table below, the economy is expected to recover from the pandemic in the near term. The IMF forecast world growth to average over 3% in every year until 2026. The independent Office for Budget Responsibility now believe that the UK economy will return to pre-pandemic levels by the end of the year. A similar story emerges for Scotland too, although growth may be slightly weaker in 2022 and 2023. Oxford Economics (for Skills Development Scotland) forecasts Aberdeen GVA to grow by an average of 2.9% per annum between 2021 and 2024.



Forecast comparison, GDP/GVA growth rates (%)							
	2021	2022	2023	2024	2025	2026	2027 - 2031
Aberdeen - GVA							
Skills Development Scotland		2.9				0.7	
Irwin Michell	6.5	3					
Scotland - GDP							
Scottish Fiscal Commission	6.7	3.8	1.3	1.3	1.4	1.4	
Fraser of Allander Institute	6.5	4.4	1.4				
UK - GDP							
Bank of England	7	5	1.5	1			
Office for Budget Responsibilities	6.5	6	2.1	1.3	1.6	1.7	
International Monetary Fund	6.8	5	1.9	1.6	2.5	1.5	
Independent Forecasts*	7	5					
World - GDP							
International Monetary Fund	5.9	4.9	3.6	3.4	3.3	3.3	

Source: Scottish Fiscal Commission: December 2021, Fraser of Allander Institute: September 2021, BoE Monetary Policy Report: November 2021 Independent Forecasts by HM Treasury: November 2021, Office for Budget Responsibilities: October 2021, International Monetary Fund: October 2021, Skills Development Scotland - Oxford Economics Forecasts: July 2021, Irwin Mitchell - UK Powerhouse: November 2021

However, this is only part of the story.

There remain significant uncertainties about the pace and sustainability of the recovery. Fears over supply chain blockages, rising inflation and concerns over a resurgence in COVID-19 cases over the winter, have all acted as a dampener on immediate business and consumer expectations. We await to see the full impact of the lifting of business and employment policy support measures in the months ahead. Should the spread of the virus increase, then it is likely that further support measures will need to be implemented in a timely manner to give financial support and reduce uncertainty.

At the same time, for many sectors of the Aberdeen economy the recovery has been more fragile than the aggregate data would suggest. The tourism industry has been particularly affected as has small food service businesses that catered for office workers who have mainly continued to work at home. It is unclear to what extent these trends will continue, but the proportion of people working from home is likely to remain much higher than it was pre-pandemic.

As always, much of the strength of the recovery in Aberdeen and the North East will depend upon the recovery in the energy sector. Here the outlook continues to evolve. The oil price has recovered to \$75 in December 2021, having fallen to an average \$18 per barrel during April 2020 at the beginning of the pandemic. In the longer-term the transition to Net Zero is both a challenge and an opportunity for the sector. Recent high profile political debates over the move to Net Zero and the relative balance of fossil fuels in the transition now set an important backdrop for investment decisions in the North Sea. It highlights the need for greater clarity on the detail of the transition and how it will be managed. Whatever one's view on the speed and nature of energy transition, it is vital that the region's economic future is given due consideration and support to avoid long-term scarring from higher unemployment and loss of businesses. A successful Aberdeen economy is not just crucial for local economic prosperity but also national economic growth and supporting the effective transition to Net Zero.

In summary, the fallout from the pandemic is likely to last for a long time. This will have various implications, across sectors such as hospitality, retail and tourism through to changes in demand for office and residential space in city centres.

It is vital therefore, that policymakers continue to focus upon the long-term, both in terms of the structural changes and priorities identified pre-pandemic and in the areas where the pandemic will have a long-lasting impact upon our economy. It is to these long-term issues that we now turn.



2 Longer Term Strategy

In our first three annual reports from 2018 to 2020, we made a range of recommendations to improve the long-term performance of the North East economy. These recommendations were designed to look beyond near-term developments given the nature of the structural challenges and opportunities facing the region, particularly as it looks to diversify away from oil and gas.

Part of this is a shift toward renewable energy and the opportunity to re-purpose the region as the UK's sustainable energy hub. But it also reflects a recognition of the need to diversify more broadly, including other sectors beyond energy. Within the context of Brexit and the pandemic, many of the challenges we have identified in previous reports have increased so this makes the urgency in which to respond to them even more important.

We remain encouraged by the partnership approach that exists across the North East economy. The commitment of organisations such as ONE, the Aberdeen & Grampian Chamber of Commerce, the Net Zero Technology Centre, the university and further education sector and many individual businesses to the region, gives the North East a comparative advantage over other parts of the country.

In the last report we also noted that in time, a refreshed Regional Economic Strategy would be required.

- 1. With the Scottish Government due to publish this year the National Strategy for Economic Transformation for the next ten years the Panel are of the view that 2022 is the right time to renew the strategy for the North East. The approach must build on the progress made in recent years and continue to concentrate on long-term priorities. It must put Aberdeen the place at its heart and focus on the region's approach to sustainable, inclusive economic development and improved wellbeing. This should be underpinned by a clear implementation plan with detailed SMART objectives.**

It would also provide an opportunity to take forward the Panel's previous recommendation from the 2019 report that Aberdeen can take a regional lead on managing natural assets in the transition to Net Zero, building on the recognition in the current Regional Economic Strategy that the region's natural assets and clean environment are vital to its economic success.

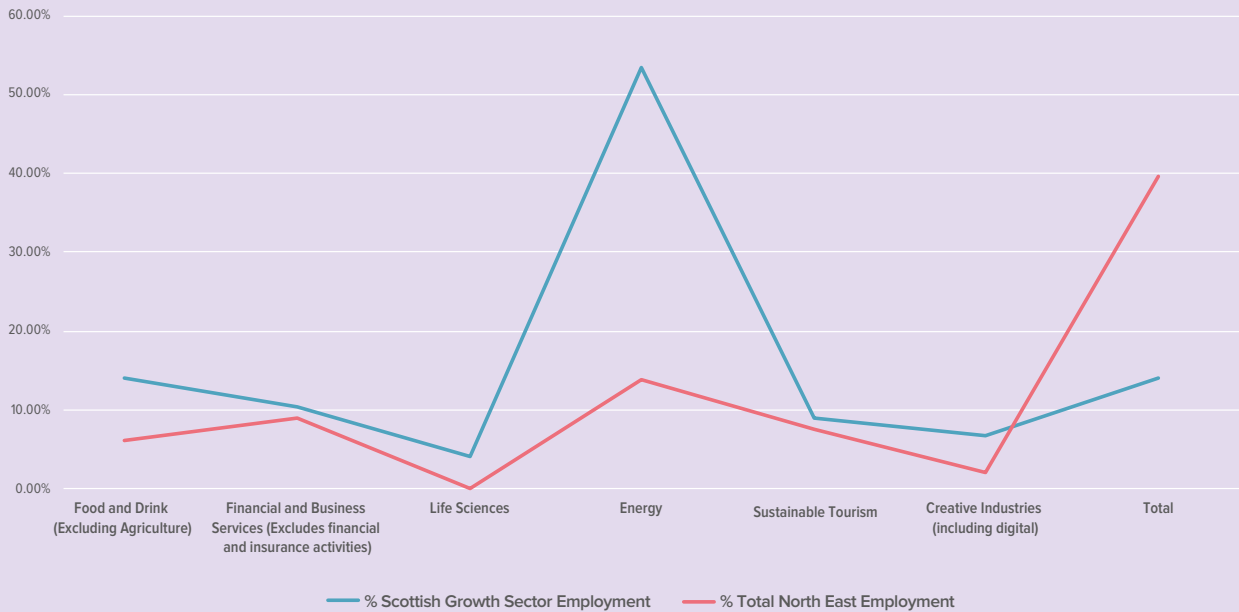
In this chapter, we return to the longer-term assessment of the factors critical for the region's economic success. We review the recommendations we have made in the first three reports against these longer-term challenges noting progress and make further recommendations to achieve this ambition where appropriate.

2.1 Diversification

The ambition of the existing Regional Economic Strategy⁶ is to diversify the North East economy away from oil and gas towards alternative clean energy sources and other sectors in the economy which the North East has the potential to perform strongly in. To diversify successfully in the long-term, it will be critical that new activity targets both high value and sustainable economic activity. This is particularly acute given the current employment and productivity gaps that exist between the energy and other sectors in the economy as shown in the charts below.

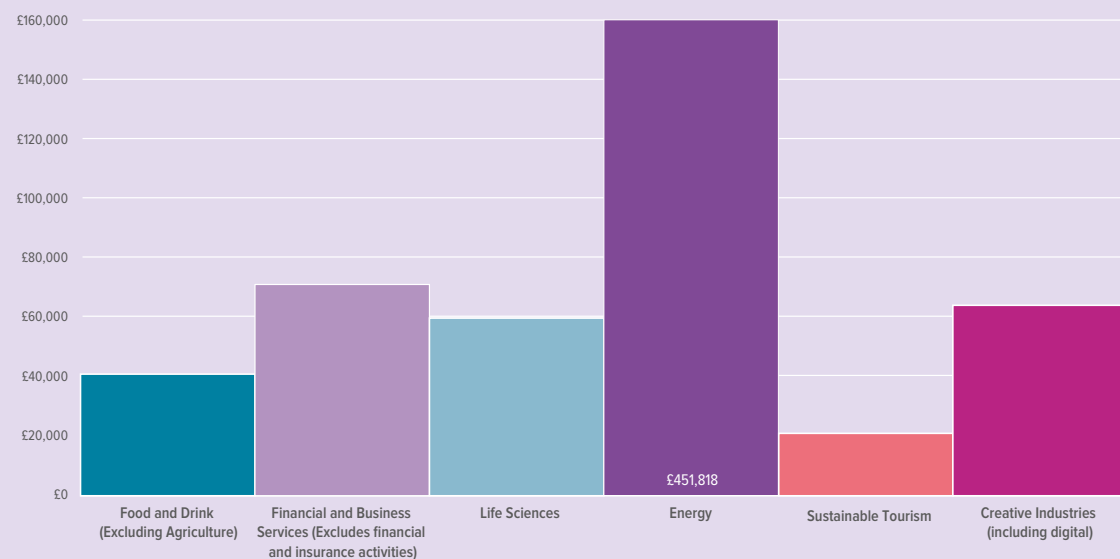
Growth Sector Employment Share (%), North East Scotland, 2019

Source: Scottish Government



North East Growth Sectors GVA per head of Employment - 2018

Source: Scottish Government

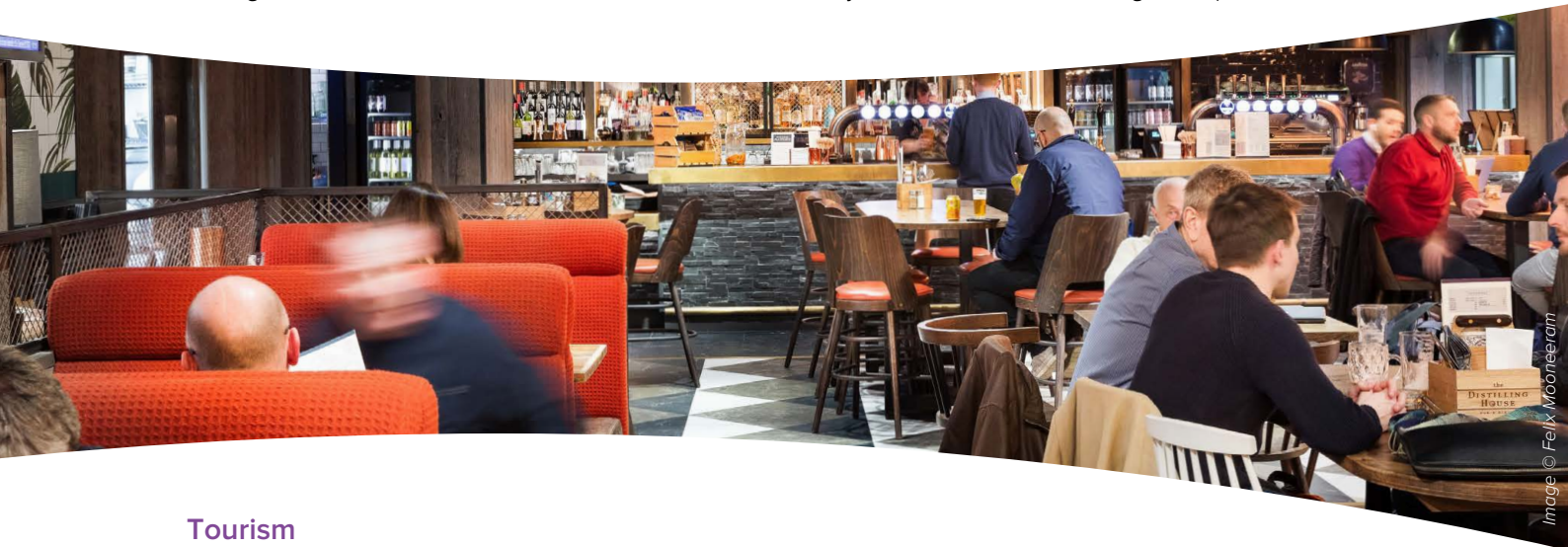


⁶ <https://investaberdeen.co.uk/why-aberdeen/supporting-programmes/regional-economic-strategy>

The Panel has recognised this from the outset. In 2018, we endorsed the overall approach of the Regional Economic Strategy in particular the focus on raising productivity outside of the oil and gas sector. In 2020, we recommended an enhanced approach to diversification which builds on the sectoral approach already identified but looks to go further and faster in establishing a wider range of economic activities in the region.

There has been continued progress. At the annual review of the City Region Deal in December 2021, the UK Government and the Scottish Government noted the progress made by all Deal projects and the positive impact on the Aberdeen economy. The significant investment from the public sector announced in 2016, has leveraged considerable private sector investment which accounts for two-thirds of the City Region Deal spend to date. At the halfway point of a 10-year programme, more than £504 million has been invested in transformational industry innovation and growth projects and digital and physical infrastructure.

In 2018, on the back of the financial commitment from the Aberdeen City Region Deal on a City Network Extension project, CityFibre announced a private investment in partnership with Vodafone. The Fibre-to-the-premises (FTTP) programme would see Aberdeen become Scotland's first city in which nearly every home and business has access to gigabit speed broadband. This year saw the successful completion of this project and further investment through the Deal and Private Sector in full fibre connectivity continues across the region at pace.



Tourism

The vision for Aberdeen tourism is to turn itself into an attractive city for cultural breaks and a gateway to a wider region which offers a high-quality outdoor experience.

However, the tourism industry has been heavily impacted by the global pandemic. The UK received 277,000 **visits** in Q2 2021, 97% below Q2 2019 with visitor **spend** at £386 million, down 94% on Q2 2019. With further disruption from limits on capacity to comply with social distancing and public health measures, hotels have faced a challenging year, with only a limited bounce back in recent times. Weekday Revenue per Available Room (RevPar) rates for November in Aberdeen was £36 compared with £40.2 in November 2019.

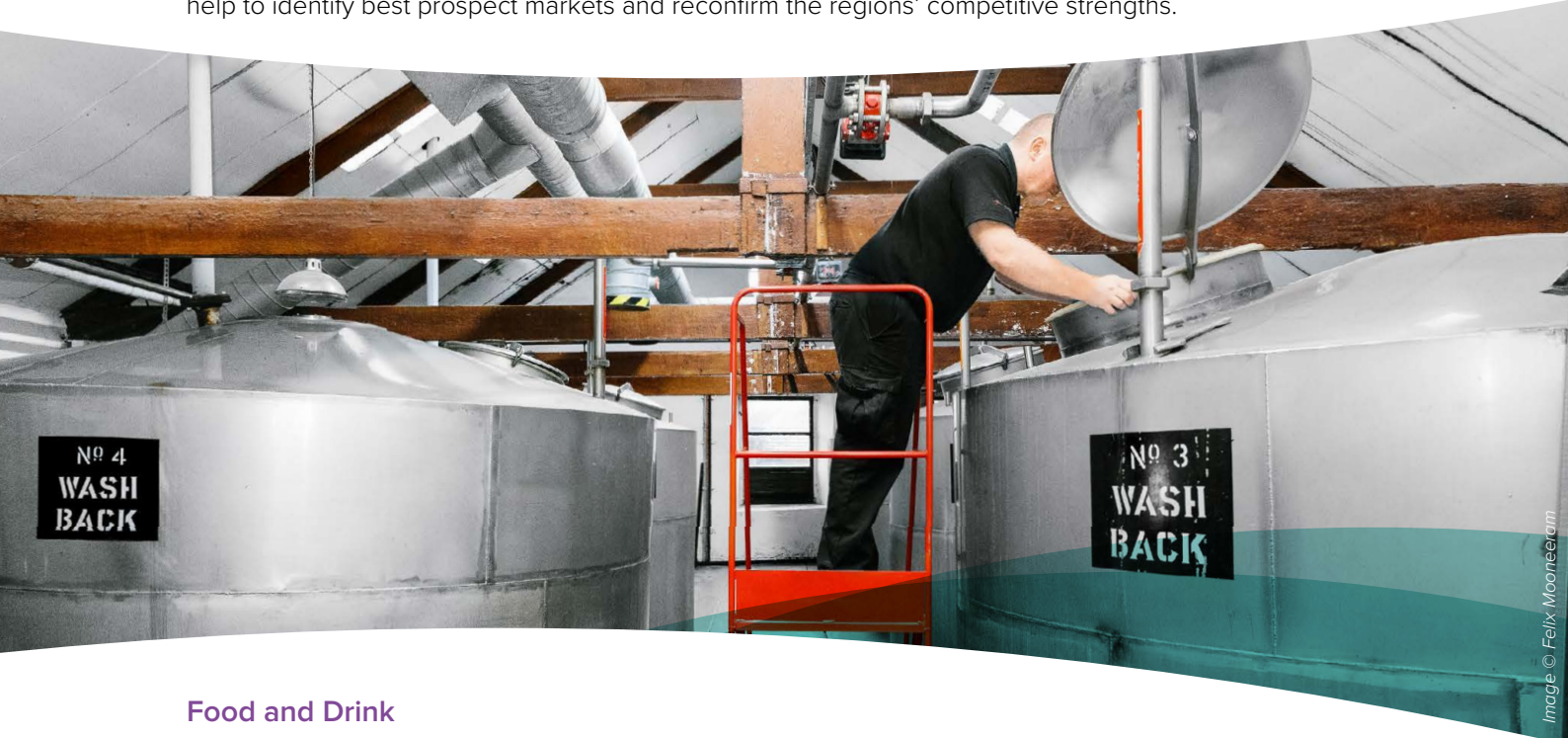
The North East has historically benefitted from business tourism in support of the energy sector, illustrated by a RevPar in November 2014 of £95. This market has been challenging in recent years and is likely to remain fragile for the foreseeable future. As part of efforts to diversify the economy, the Panel has noted the increased focus on short-term leisure tourism.

The sector is important as it offers a significant number of employment opportunities, with positive spillovers into other sectors such as retail and transport. But it has, historically, had lower productivity compared to the rest of the North East economy. Like the rest of the UK, the North East also currently faces a challenge in attracting a skilled workforce to meet demand and establishing tourism and hospitality as a career of choice.

Actions designed to help mitigate these challenges over the past 12 months have included targeted domestic marketing initiatives, ongoing bid activity for business events and tour operator contracts, a recovery programme delivered by VisitAberdeenshire for local businesses and skills initiatives.

Looking ahead, the North East Adventure Tourism (NEAT) initiative, led by Opportunity North East is an example of regional innovation to support the region's growing adventure tourism sector. Within Aberdeen, the unveiling of Union Terrace Gardens in 2022 and the ambition within the City Centre Masterplan aims to provide more reasons to visit the city.

Despite recent challenges, the Panel continues to believe that the growth of a high quality and diversified leisure tourism sector presents an important economic opportunity for the North East. The region will, however, need to be flexible to new trends in visitor demand post-pandemic both here in the UK and internationally. VisitAberdeenshire's planned reassessment of the regional tourism strategy in early 2022 is welcome and will help to identify best prospect markets and reconfirm the regions' competitive strengths.



Food and Drink

The food and drink sector in the North East is not only a vital part of Scotland's food and drink brand, but another opportunity to help diversify the regional economy. There are 3,200 food and drink businesses in the North East - 18.1% of the Scottish total. The industry's ambition is to grow the region's food, drink, agriculture, and seafood sector turnover by 5% per annum, double exports by 2030, and increase productivity by 25% by 2025⁷. The North East Seafood Processing sector provides a fifth of UK output and its transformation, to add more value and modernise, is a regional priority.

Industry stakeholders told us that the £21 million Seedpod project is at the centre of the regional ambition for food and drink. It will open in 2022. The project will help established companies accelerate growth through innovation and technology adoption and market and product development. It also aims to provide start-up production space and development facilities for high-growth new businesses. SeedPod is funded by the Aberdeen City Region Deal and will receive £10 million from the UK and Scottish Governments and £4.4 million from Opportunity North East (ONE). The Aberdeen City Region Deal is an excellent example of private sector and Public Sector working together to deliver real benefit for the region.

In recent times, industry representatives indicated that the food and drink sector has had two competing impacts – a dampening effect on some businesses and sectors from Brexit and COVID-19, but an increased demand for quality, sustainable and highly provenanced products.

It is no surprise, therefore, that activity over the last year has been mixed within the sector. Many suppliers to retailers have reported, in the main, a more positive year. However, many food service providers have had a more difficult year, especially those not able to pivot to customer sales or retail. There have been notable successes in growing online/direct to consumer sales.

In addition, labour shortages in manufacturing, as well as primary production and processing, have become particularly acute over the last year. Pressures on skills gaps were evident prior to the pandemic, but have deteriorated post-Brexit and pandemic.

This, we believe, is a major limiting factor on the sector. Reshaping production processes and automation will help, and will improve productivity, but there needs to be a continued focus upon skills. Policies to grow the local skills base and attract workers to the North East with high quality and sustainable jobs will need to continue to develop and build on existing initiatives given the scale of the challenge.

⁷ Opportunity North East

Life Sciences

The life sciences sector in North East Scotland has the high-growth potential for companies to attract investment and funding and working at the forefront of developing therapeutics to treat modern health challenges. It is a relatively productive sector and is a key opportunity for diversifying the region's economy.

The target is to double the number of companies in the region's life sciences cluster by 2027. In 2020, the region contained 65 enterprises, 11.3% of the Scottish total. These include biotechnology and pharmaceutical companies, contract research organisations, medical device, and diagnostic companies, along with specialist suppliers and support organisations. The strength of the region's university and further education sectors provide a strong base to draw upon research expertise and skilled workers.

The region hosts around 75% of Scotland's late-stage drug development companies⁸ and is one of two UK centres for biologics research and commercialisation.

The Panel was pleased to note that the construction of the £40 million BioHub is underway with completion expected in autumn 2022. Another City Region Deal and ONE partnership, the hub will provide world class facilities for life sciences start-ups and high-growth enterprises with custom-built laboratory and office facilities. It is intended that BioHub will house up to 400 scientific entrepreneurs and double the number of life sciences companies in the region by 2027. It is intended to support the growth of spinout, start-up and scaling businesses bringing new drugs, treatments, therapies and technology to market and creating high-value green jobs.

Digital

Digital infrastructure and support to grow digital businesses continue to be key to the region's successful economic diversification.

The Panel has consistently highlighted the importance of the digital programme within the Aberdeen City Region Deal. Last year the Panel recommended building on the digital strand of the City Region Deal and strengthening the technology ecosystem to support the establishment of new businesses and improve digital infrastructure.

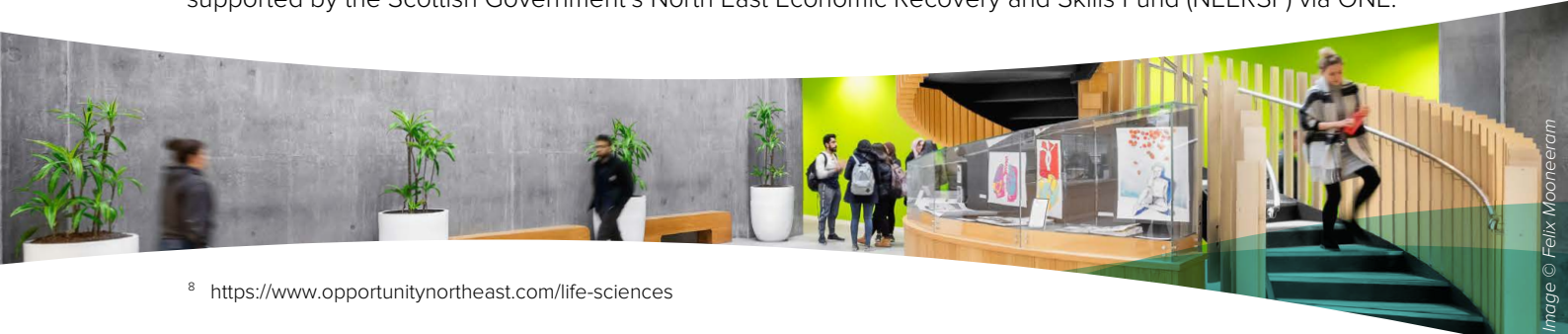
Digital industry employment in the North East is increasing. Between 2015 and 2020 employment in digital software and electronic publishing rose from 1,910 to 2,365 jobs, rising to 6.3% of the Scottish total from 5.6%. ONE's ambition is to grow 10 to 20 of the region's 200+ digital companies to a turnover of around £20 million and to have international operations by 2028.

The Panel acknowledges a range of initiatives in this space to help support the growth of the digital economy. The Aberdeen City Region Deal investment has leveraged private investment of over £59 million and will give Aberdeen City residents access to gigabit internet speeds, being one of the first cities in Scotland to do so. The Panel notes that a full business case to address gaps in digital infrastructure in the region is being progressed. The business case is due to be presented in May 2022.

Aside from these investments in infrastructure, it is important that the skills system and the investor and business support landscape enables growth of technology companies. The Net Zero Technology Centre (NZTC) has established TechX to scale up capability in the region. Grant funding for start-ups remains a challenge in high technology sectors. NZTC and the leadership in technology transfer is a conduit for the city region being a 'best practice' deliverer of elements of Logan's recommendations, along with the two universities. Under the Logan Review on how the technology sector contributes to economic recovery, there is an ambition to develop a techscaler initiative in the city that will accelerate technology start-ups as part of a nationwide network.

Digital transformation is a priority for the private sector. ONE told us about the ONE Tech Hub offering hot-desking, co-working and on-site expertise, the CodeBase partnership providing incubation and accelerated growth support to early-stage companies, and the ONE Digital Business Growth Programme supporting established digital tech business owners to develop and scale their businesses faster. The start-up programmes - Tech Startup Fundamentals and Tech Startup Next Steps - aim to increase the number and success rate of start-ups and are supported by the Scottish Government's North East Economic Recovery and Skills Fund (NEERSF) via ONE.

⁸ <https://www.opportunitynortheast.com/life-sciences>





Energy

The energy sector is critical to the success of the North East. In 2020, 40% of Scottish energy sector enterprises were located in the North East. It is estimated that the sector supports around 60,000 jobs in the North East.

In oil and gas there are signs of recovery. 69% of companies are expecting revenue to rise in 2022. Firms also continue to be optimistic about recruitment over the medium term, with 52% expecting to increase staff headcount over the next three years, however, skills shortages remain.

Policymakers and business leaders must continue to take bold decisions to support a Just Transition into new forms of sustainable energy. This transition continues to be led by industry through the Aberdeen City Region Deal funded, Net Zero Technology Centre (NZTC) and Oil & Gas UK development of a North Sea Transition Deal. NZTC continues to deliver technology solutions for the offshore energy sector and across existing and emerging supply chains. 76% of firms are positive about Scotland's future potential, and Aberdeen being the energy hub at the heart of that vision⁹.

There is a need to ensure that any transition from oil and gas to alternative sources of energy takes everyone into account.

The skills requirements to meet that transition are considerable. Around 200,000 people are forecast to be required in 2030 in the UK offshore energy sector, including in offshore wind, hydrogen and CCUS. This workforce mix is expected to evolve over time, with over 65% of the workforce in 2030 anticipated to support low carbon energy activities¹⁰. This is challenging but achievable. Over 90% of the oil and gas workforce have skills transferable to adjacent energy sectors¹¹.

The right investment is needed to ensure the transition is successful. The Energy Transition Zone is predicted to create up to 12,500 jobs in the North East and grow a new energy cluster around the UK's largest marine infrastructure project – the £350 million South Harbour expansion at Aberdeen Harbour. Equally important are energy technology hubs. The £180 million Net Zero Technology Centre – set up in 2016 to help industry develop and deploy technology to accelerate the transition to an affordable Net Zero North Sea – hosts the Net Zero Solution Centre which aims to make the North Sea the world's first decarbonised oil and gas region.

Finally, as discussed in the Policy Coordination chapter, there needs to be policy alignment of all stakeholders and both the UK and Scottish governments to work together to ensure the transition's success.

2. On diversifying the economy, the Panel concludes that since our first report the long-term challenges facing the North East economy have intensified given the prolonged downturn in the oil and gas sector, Brexit, the transition away from the dependency on oil and gas and the pandemic. This means that diversification is even more important for the long-term success of the North East economy. This requires a continued focus on the region's growth sectors but, as said last year, a need to go further and faster in attracting new businesses and people from outside these sectors reinforced by the approach to making Aberdeen the Place an attractive location to live, work and invest both now and in the future.

⁹ AGCC Oil and Gas Survey November 2021

¹⁰ Robert Gordon Energy Transition Institute

¹¹ <http://www.rgueti.com/wp-content/uploads/2021/05/workforce-transferability-report.pdf>

2.2 Skills

Skills are critical to the success of the North East economy. In 2018, the Panel highlighted the importance of migration to the regional economy both to respond to the challenges of an ageing population and to fill vital skills gaps in local industries. Brexit and COVID-19 have made this more difficult. Like other parts of the UK, labour shortages across a range of sectors are acute.

Whilst some of these gaps will be temporary, this is likely to remain a challenge for the longer-term. It is key, therefore, that the region continues to grow the general skills-base of the population, to ensure that the quality of skills is developed and to respond quickly to key gaps as they emerge.

It is vital too that the region continues in its efforts to attract new workers. A focus on the region as a vibrant place to live will be key to attracting the people with the talent needed to drive positive change across the economy in the challenging years ahead.

Skills Mismatches

Skills gaps remains a challenge for the region. 12% of establishments in Aberdeen reported a skills gap in 2020, in line with Scotland as a whole. However, since 2017 the North East Region's skills gap density (the total number of employees that lack full proficiency as a proportion of all employment) has increased (from 4.2% to 4.9%) and is higher than Scotland as a whole (4%)¹².

There is an acute increase in the density of the skills gap in professional occupations, increasing from 3.5% in 2017 to 12.3% in 2020, compared with 3% across Scotland in 2020. Some of this could be due to the transition to renewables and the associated upskilling required¹³. This contrasts with a fall in the density of the skills gap for service-intensive occupations from 6.8% in 2017 to 2.6% in 2020.



¹² <https://www.gov.scot/publications/scottish-employer-skills-survey-2020-2/documents/>

¹³ <https://www.agcc.co.uk/article/uks-oil-and-gas-sector-presses-ahead-with-diversification-but-skills-shortages-and-funding-concerns-may-create-a-barrier-to-net-zero-ambitions>



Image © Grant Anderson

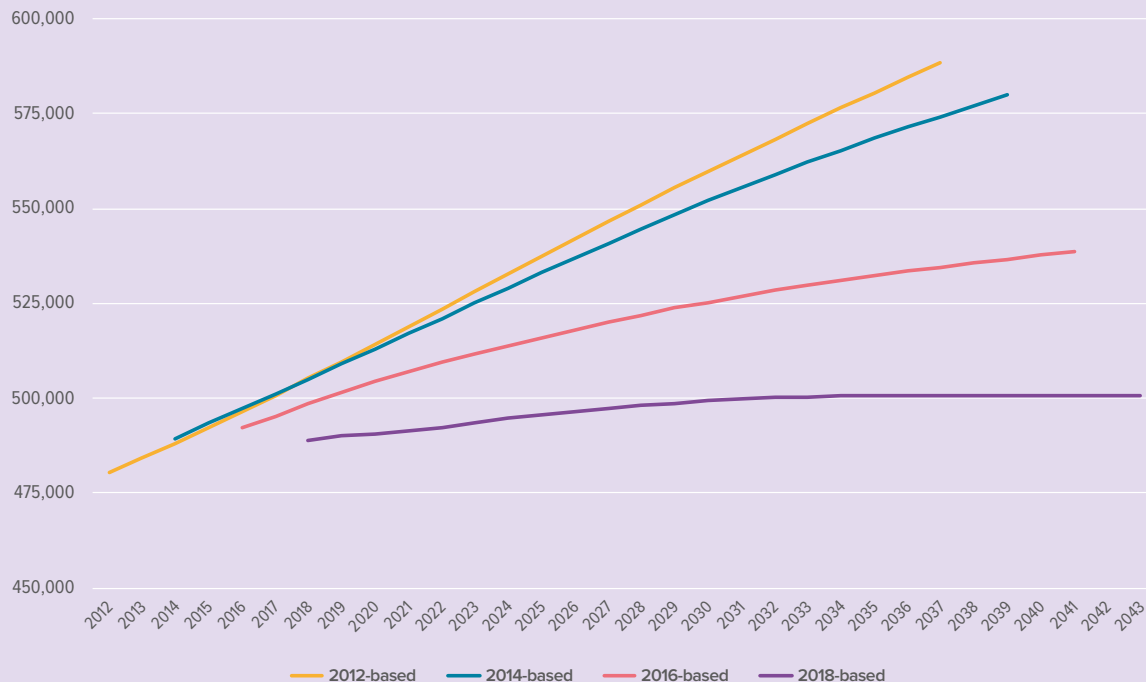
Migration

Migration data¹⁴ suggests that there has been a net outflow of people from the region in recent years. We learned from industry stakeholders that the hospitality, tourism and food and drink sectors were experiencing particularly significant labour shortages from an outflow of workers, particularly from the EU.

It remains to be seen what the longer-term impact of Brexit has on population flows once the pandemic has passed. Population projections for the region, which were once predicting significant population increases in 2012, have become progressively less optimistic in recent times.

Population Projections by Base Year - Aberdeen & Aberdeenshire (2012-43)

Source: National Records of Scotland



¹⁴ National Records of Scotland

Addressing the challenges: A Skills Strategy

Last year, the Panel recommended an updated skills strategy to take account, not just of existing skills gaps, but the labour market implications of the COVID-19 economic crisis (particularly for young people) and how the longer-term skills challenges change as we emerge from the crisis. We note that there has been a range of activity progressing to address the skills challenge but still no Skills Strategy.

The Regional Skills Strategy Action Plan is overseen by the Regional Learning and Skills Partnership. It is a partnership between NESCoI, SRUC, University of Aberdeen, RGU, SDS, SFC, Aberdeen City and Aberdeenshire councils, and ONE. In 2020, an (unpublished) Action Plan was updated to take account of Brexit and COVID-19, focussing on future skills demands. Of immediate priority, actions were identified to support digital learning and an understanding of careers in sectors most impacted by the recent economic shocks. It also included work to ensure the city region recognises new areas of skills demand around renewable energy.

In December 2020, SDS published a Climate Emergency Skills Action Plan¹⁵ that aims to capitalise on green employment opportunities. It specifically highlighted sectors including hydrogen and the work on the Energy Transition Zone. This is supported by the Green Jobs Workforce Academy¹⁶ which supports individuals to take a greener approach to their careers and Developing the Young Workforce North East (DYWNE) who have expanded their Employer-School Coordinators.

The North East Economic Recovery and Skills Fund is a £14.3 million investment by the Scottish Government to support recovery and skills in the North East. It aims to benefit more than 3,000 people across the region. The project focuses on entrepreneurship; accelerated business start-ups, development and growth; digital skills; equality and inclusion; and upskilling and reskilling people into green jobs.

The Scottish Funding Council (SFC) review of tertiary education and research recommended a new approach to skills planning and through new regional pathfinder areas. There is an aim to deliver a North East Pathfinder that would support the development of integrated approaches to education, training and skills development from the senior phase through tertiary education to employment that ultimately address the needs of the region's economy in the short, medium and longer term.

3. The Panel welcomes recent initiatives to support the regional labour market but would reiterate the pressing need to develop and publish an updated skills strategy following engagement with all stakeholders and that takes account of the existing skills gaps and is tailored towards future labour market demands. The strategy must support the approach in the renewed Regional Economic Strategy and the strategic direction set out in the Route Map to Aberdeen the Place. It should be SMART and supported with a clear delivery plan. The new strategy should join up the range of existing activity such as the skills pathfinder and build upon the existing collaboration across public sector, industry and educational institutions.



¹⁵ <https://www.skillsdevelopmentscotland.co.uk/media/47336/climate-emergency-skills-action-plan-2020-2025.pdf>

¹⁶ <https://careers.myworldofwork.co.uk/green-jobs-workforce-academy>

2.3 Resilience

The underlying resilience of the region is an important objective as we have recognised in previous reports. In last year's report the Panel noted that, "By complementing the drive for diversification with investment in technology, infrastructure, connectivity, a robust approach to Net Zero, and increasing the attractiveness of Aberdeen as a place, the foundations can be laid for a more resilient Aberdeen economy in the future."

A resilient North East economy is one that can cope with challenges that come its way, be they pandemics or policy shocks such as Brexit. It also includes the need for the region to face up to long-term structural change, including supporting the transition to Net Zero, both in the wider city economy through low carbon activities and the transformation of the city itself. And it is a resilient economy that delivers improvements in wellbeing for all the people of the North East.

During the pandemic, we have seen that in the North East the pandemic with the concurrent oil price shock and lockdown measures posed a significant strain on firms. However, firms have shown resilience in coping with the pandemic, supported by national and local policy initiatives.

But the legacy of this crisis will last for some time. In August 2021, the share of businesses in Scotland with higher debt repayments increased across most industries, with around 29% of businesses having higher than usual debt repayments. Unsurprisingly, the debt burden was highest in accommodation and food services where over half of all businesses had higher than normal debt repayments.

The share of companies, however, which report low confidence in meeting their debt obligations has been falling recently in the accommodation and food services sector. Towards the end of July 3.2% of businesses in the sector had low confidence in meeting their debt obligations. Across other sectors the share has remained broadly constant, at around 2%¹⁷.

The Panel has consistently recommended the importance of the transition to Net Zero throughout the last three years. In last year's report we said we need to ensure that the transition addresses the switch of the wider city economy to low carbon economic sectors and the transformation of the city itself to Net Zero.

The Council's Net Zero Vision sets out an ambition and framework for progress. Its governance has seen the creation of a Leadership Board supported by a Delivery Unit to progress Net Zero priorities. A Council Climate Change Plan was approved in March 2021, setting a 2045 Net Zero target and actions to build resilience for Council assets and operations.

The Net Zero Leadership Board provides direction to this agenda through their prioritised themes of Mobility, Buildings and Heating, Circular Economy (including waste), Energy Supply, Natural Environment and Participation, Inclusion and Behaviour Change. A Route-map for the city's transformation to Net Zero is in development.

4. We still welcome the partnership approach that exists in the North East, with numerous bodies including the Councils and ONE making a significant contribution to the long-term resilience of the North East. It is vital the Council continues to prioritise economic development and diversification as this will be key to building resilience in the long run. The Panel's recommendations for a renewed focus on the region's approach to sustainable, inclusive economic development and improved wellbeing and a new route map for Aberdeen the Place will help embed greater resilience in the economy over the longer-term.



¹⁷ Fraser of Allander: Economic Commentary Q3 Report Pub 30th Sep 21

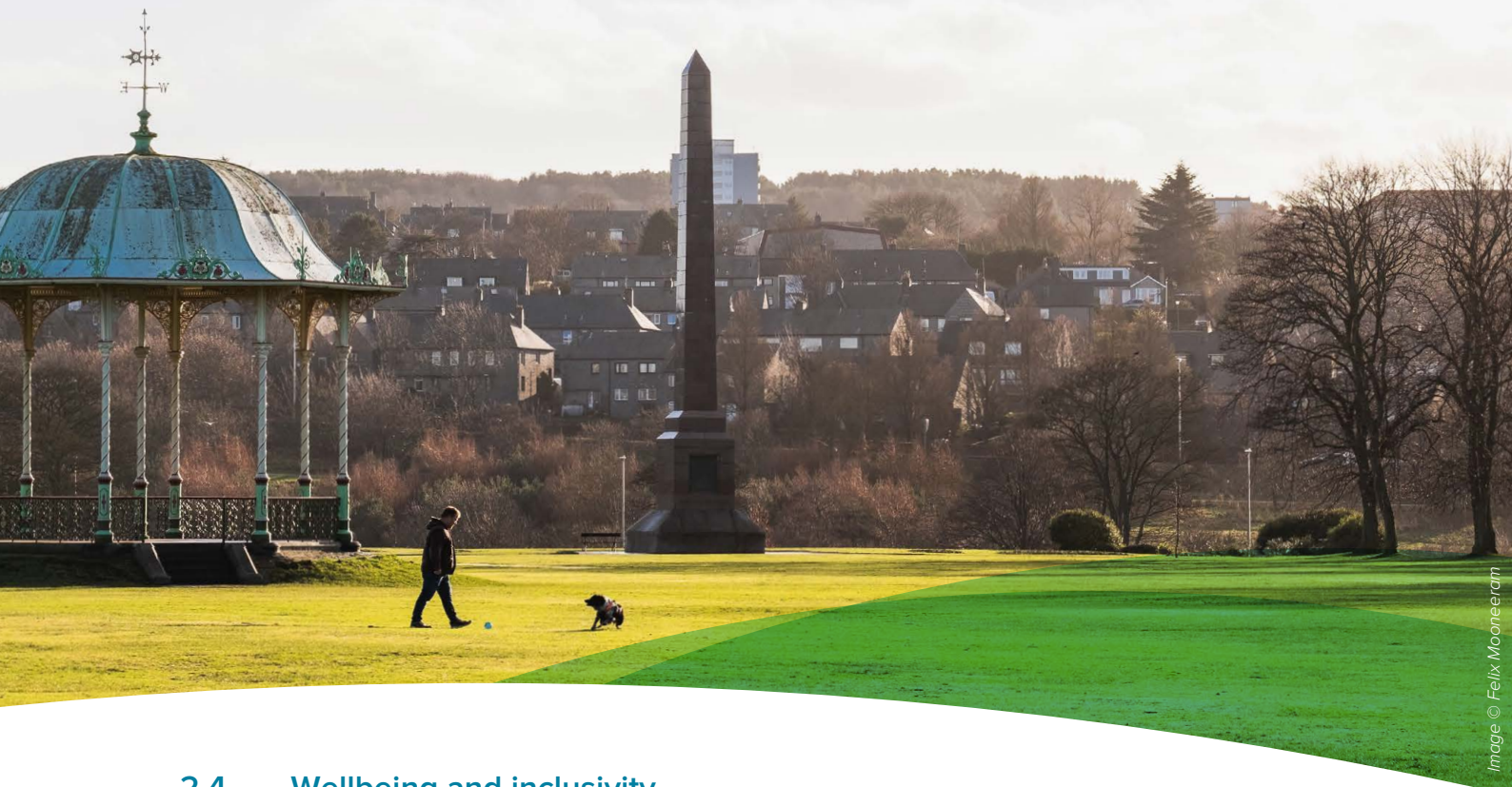


Image © Felix Mooneeram

2.4 Wellbeing and inclusivity

We previously recommended the development of North East Performs, a database to monitor and evaluate the performance of the North East economy. This was first published in 2018 and further developments are planned for monitoring specific projects.

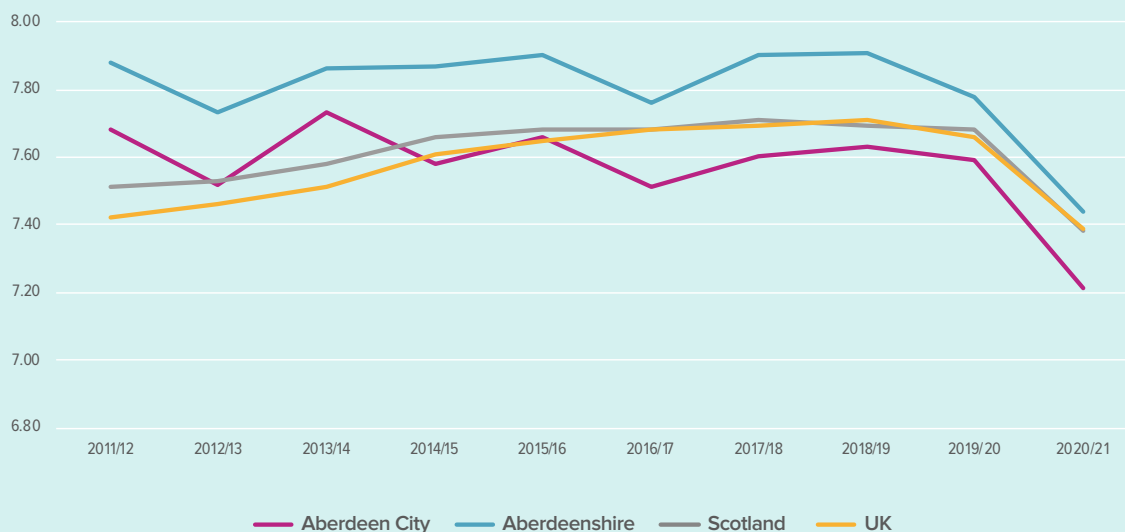
In 2019, we recommended that the Council define the North East’s approach to Wellbeing. The Panel has heard that wellbeing metrics have been included in North East Performs and that initial discussions are taking place around a wellbeing index similar to one already in place in England and Wales¹⁸.

Until then, the data that we do have highlights that the pandemic has impacted on people’s self-reported sense of wellbeing. The development of the renewed Regional Economic Strategy should reflect the region’s values and objectives for wellbeing and embed this in the economic development framework.

Life Satisfaction, Aberdeen, Aberdeenshire, Scotland and UK - 2011/12 - 2020/21

Based on "1. Question: Overall, how satisfied are you with your life nowadays? Where 0 is 'not at all satisfied' and 10 is 'completely satisfied'."

Source: ONS



¹⁸ Centre for Thriving Places, <https://www.centreforthrivingplaces.org/>

5. The Panel welcomes the further development planned for North East Performs and the Net-Zero Dashboard as this monitoring and evaluation is an essential part of developing resilience in the changing economy. We reiterate the need to take the lead by defining the North East's approach to Wellbeing and embedding this in the Regional Economic Strategy. The economic strategy needs to reflect the region's wellbeing values and have them amongst the objectives of the strategy.

In the 2019 report the Panel highlighted that despite the relative wealth of the North East, not everyone in the region fully gains from such prosperity. In the long-run, there is a growing recognition that tackling inequalities is not just an important objective in its own right, but that doing so is crucial for promoting sustainable economic development. Poverty and its consequences can act as a major barrier to people being able to fulfil their full economic potential. In previous reports we have highlighted that within the region there are areas that face much greater income and employment deprivation than the average level of deprivation in Scotland's most deprived local authorities.

Since then, there have been some positive developments. The Council has developed several wellbeing and inclusion policies in response to the pandemic in its socio-economic rescue plan. These have included using Employability and Poverty and Social Inclusion funds to deliver early-stage engagement, financial and employability support and partnership working between Community Planning Aberdeen and businesses in the Community to align corporate social responsibility to areas of need for better outcomes for people, families and communities¹⁹.

6. The COVID-19 pandemic has exacerbated inequality and brought additional challenges to inclusion. The Panel recommends that the development of a renewed Regional Economic Strategy in 2022 provides the perfect opportunity to expand on the region's approach to fostering inclusion and further embed it in the region's economic approach.



Image © Felix Mooneeram

¹⁹ <https://communityplanningaberdeen.org.uk/business/>



Image courtesy of Aberdeen Harbour Board

2.5 Infrastructure

Infrastructure investment is key to the long-term success of a region. The region has made considerable progress in recent years with the Aberdeen Bypass, P&J Live and the Harbour expansion. In response to the pandemic, the Council has developed The City Centre Masterplan and Aberdeen Beachfront reviews that include a £150 million commitment from the Council. The Panel welcomes this investment chiming with the need to maximise the potential of Aberdeen as a place to live, work and invest.

The pandemic has impacted on recent investments in the city's cultural offer. The **Art Gallery** was awarded Art Fund Museum of the Year in Oct 2020 and has also received national awards for architecture²⁰. The pandemic has, however, had a significant impact on visitor figures. Similarly, the **Maritime Museum** closed in March 2020 and only reopened to the public in August 2021. **Provost Skene's House**, celebrating innovation and achievements of the people of Aberdeen and North East Scotland, opened to the public on 9 October 2021.

The Aberdeen Harbour Expansion Project is a £400 million investment and is due to commence operations in October 2022 following delays associated with COVID-19. The long-term benefits of the expansion are expected to flow from new investment and business to support decommissioning. Other opportunities including cruise ship tourism and offshore renewables development from the current ScotWind licensing rounds. The new harbour will also be integrated into the region's ambitions in hydrogen, supporting the infrastructure for hydrogen generation and connectivity to export pipelines.

Passenger and traffic volumes at Aberdeen International Airport remain significantly below pre-COVID levels. Whilst activity has started to show some signs of uplift, the impact of COVID-19 is still being felt by the airport, its customers, suppliers and the wider aviation sector.

²⁰ RIAS Andrew Doolan Best Building in Scotland Award, announced on 30 Nov 2021.

The Panel have previously advocated for a strategic and long-term approach to infrastructure investment. In our 2019 Report we suggested there should be strong governance of decision making and a clear process for identifying priorities, evaluating projects and measuring impacts of infrastructure investment. Since then, the planning of the city's infrastructure has been centred around the reviews of the City Centre Masterplan and the Aberdeen Beachfront while the 2020 Strategic Infrastructure Plan sets out those investments that will support the city's net zero ambitions.

7. The Panel continues to recommend careful prioritisation of infrastructure investment options and that the region follows the lead of the Infrastructure Commission to include natural infrastructure in the decision-making process. The aim should be to complement the new Local Development Plan and maximise the impact of all such investment on the attractiveness of Aberdeen as a place to live, invest and work. This will include but not be limited to enhancing transport and digital connectivity, the natural environment and supporting the Regional Economic Strategy and approach to wellbeing.

Since the Panel last reported, the Scottish Government has published an updated Infrastructure Investment Plan. There are several investments proposed for the North East including:

- Investing £525 million, aligned with local authority and UK Government funds, to deliver the next five years of the City Region Deal;
- Investments to improve rail services between Aberdeen to Central Belt;
- Investing £180 million for an Emerging Energy Technologies Fund to support carbon capture and storage (CCS), negative emissions technologies (NETs) and hydrogen development; and,
- A £60 million Energy Transition Fund

8. There has been welcome investment to support the North East's drive to Net Zero and to increase Aberdeen's connectivity with the central belt. As we have mentioned in previous reports, we continue to urge Aberdeen City Council and other regional stakeholders to push both the UK and Scottish governments to maintain the urgency and pace of these and future investments in order to ensure that the North East energy transition, critical to the UK's energy transition, is successful.





Image © Aberdeen City Council

2.6 Aberdeen as a Place

The changing nature of cities is something that we identified as a priority in our 2020 report. As we highlighted, *“quality of life is likely to become much more of a factor in influencing business and investment decisions at the margin than in the past. This provides an opportunity for a city like Aberdeen with its high standards of quality of life to use this as a key part of its economic strategy in the years to come.”*

This issue has taken on increasing importance within national decision-making bodies, thinktanks and funding allocations. The Centre for Cities²¹ made the following recommendations for cities:

- **Work with business groups to encourage workers back where appropriate**
- **Make public transport safe and clean**, launching a public information campaign encourage people to use public transport again once it is safe to do so
- **Establish a £5 billion City Centre Productivity Fund** to make their city centres more attractive places to do business
- **Implement policy that supports job creation**, specifically to help high street businesses and the hospitality sector find their feet again
- **In expensive cities build affordable housing close to jobs, cycle routes and public transport.** This will reduce the need for low and middle-income people to flat-share
- **Introduce car-free zones**, expand active travel and reprioritise roads and parking space for other uses – bars, restaurants and shops
- **Invest in parks and public outside space** where people without gardens can socialise safely
- **Provide city centre workspaces** for high-skilled workers that suit more flexible ways of working

The economic challenges the city centre has faced have increased in the last year. In last year’s report we highlighted the risks around key businesses leaving Aberdeen city centre. Several companies have left Aberdeen, including the anchor tenant John Lewis. There increases the difficulty the city faces to recover from the pandemic and increases the need to intervene to ensure Aberdeen is a place where people want to live, work and visit.

The City Centre Masterplan and Aberdeen Beachfront reviews include a £150 million commitment from the Council. In November 2021 the Council City Growth and Resources Committee made the following decisions:

- Pedestrianisation of the central section of Union Street from Market Street to Bridge Street
- Approved the updated Outline Business Case for the new Aberdeen Market
- Several short-term items for the beach area are to be progressed to an outline business case, including a new amphitheatre, a new events field, new urban park areas and new sports areas
- Medium-term investment in beach infrastructure
- Long-term items include a new Aberdeen Football Club stadium remaining in the city centre²² and a new leisure facility

²¹ <https://www.centreforcities.org/future-of-cities/>

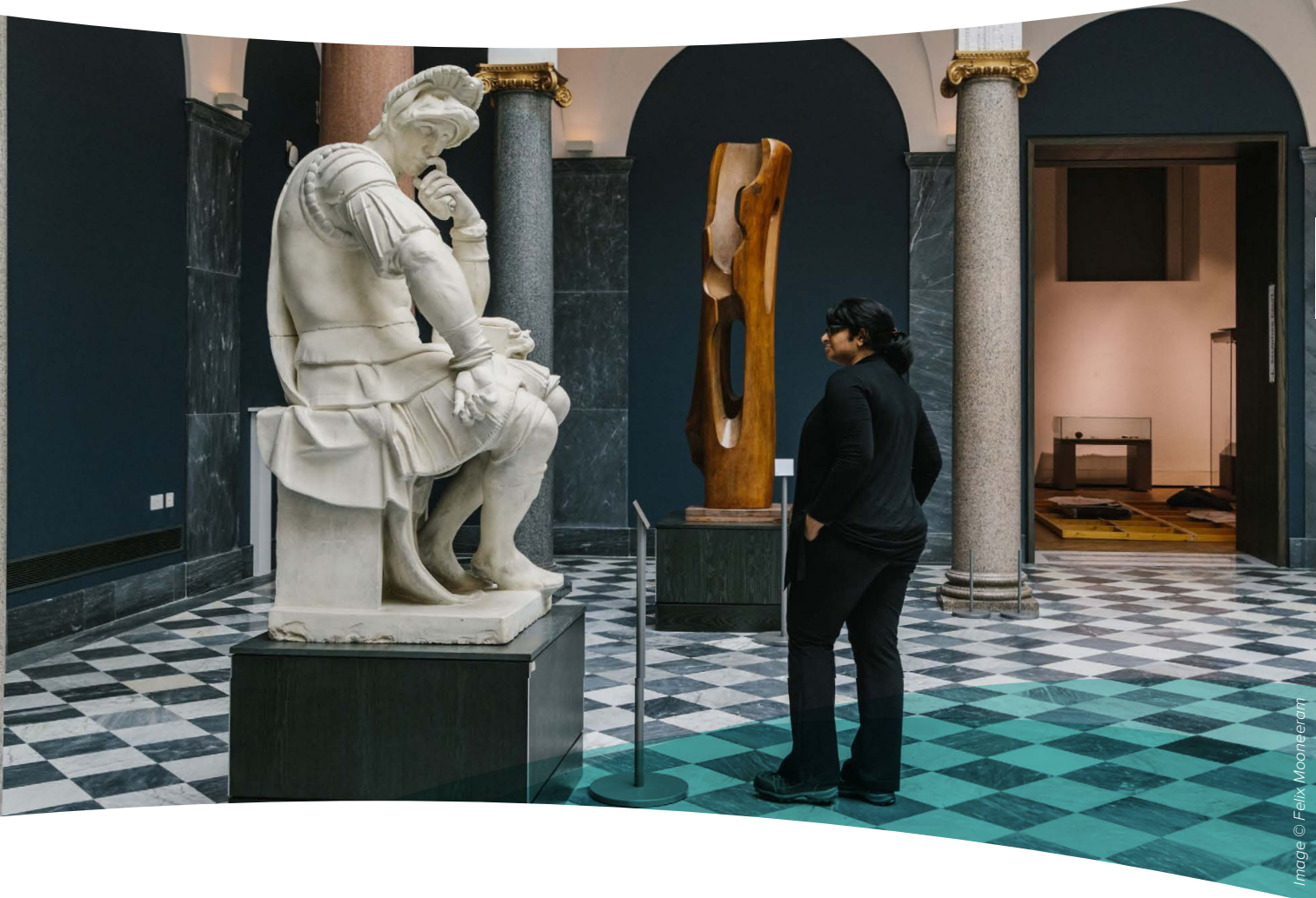
²² <https://www.eveningexpress.co.uk/fp/news/local/council-open-to-providing-funding-for-joint-venture-stadium-with-dons/>

The Council told us there has been consultation and the Panel heard there is general support for the direction of the reviews²³. There has also been significant consultation with citizens and businesses of Aberdeen on their ideas for the city including consultation around green spaces, accessibility, travel and transport and developing a café culture²⁴.

The Council's recent investment in community and cultural assets from the Place Based Investment Fund is also welcomed²⁵.

The Panel recognise the efforts in the last 12 months to develop the city into a high-quality city where people want to live, work, invest and visit and the engagement with the people of Aberdeen on what they want from their city. However, the Panel cautions that this is just a first step in what is a long-term approach to Aberdeen the Place and that continued cocreation from across all stakeholders is essential for the project to be a success and in what is a very competitive area across cities everywhere.

9. The Panel's overarching recommendation in its 2020 report was for a new Route Map for the Transformation of Aberdeen the Place, that is flexible to changing economic conditions and has a clear focus on implementation. The first steps have been taken with the development of the City Centre Masterplan and new proposals for the Beachfront and this recommendation is reiterated in this report. A full route map can help set the overall strategic approach for the region in the long-term and help coordinate the wide range of different strategies that are in place or under development and give added focus to the new Regional Economic Strategy.



²³ <https://committees.aberdeencity.gov.uk/documents/s123865/CCMP%20-%20APPENDIX%20A%20CCMP%20REVIEW%20-%20Final%20Version.pdf>

²⁴ <https://committees.aberdeencity.gov.uk/documents/s126202/Appendix%20E%20reduced.pdf>

²⁵ https://news.aberdeencity.gov.uk/funding-programme-agreed-for-city-projects/?utm_source=Facebook&utm_medium=social&utm_campaign=Orlo



Image © Felix Moore.com

3 Policy Coordination

In our report last year, we highlighted that Aberdeen cannot achieve its ambitions alone and close working with and between the UK and Scottish governments continues to be crucial. There are several areas where critical strategic outcomes for the North East are dependent on decisions taken outside the region and that are not within the gift of local government.

In the coming months, there are a number of key initiatives which will hopefully provide greater clarity on national policy direction helping the region to plan ahead. These include:

- The need for greater certainty over the future nature and direction of UK Shared Prosperity Funding which is set to replace EU structural funding
- The publication of the UK Government's Levelling Up White Paper, associated funding and how such funds will be allocated
- Clarity over the process for Greenport/Freeports where so far there have been differing announcements from Scottish and UK governments (which many stakeholders told us was confusing and inhibiting the region's joint bid in this area).
- The publication of the Scottish Government's National Strategy for Economic Transformation, initially scheduled for the Autumn but delayed until the New Year, which will help inform the development of a new Regional Economic Strategy.

10. A more joined up and coordinated approach across local, Scottish and UK governments on all issues that impact on regional economic development would aid long-term strategic planning in the region and be welcomed by the Panel.

4 Long Run Financial Position

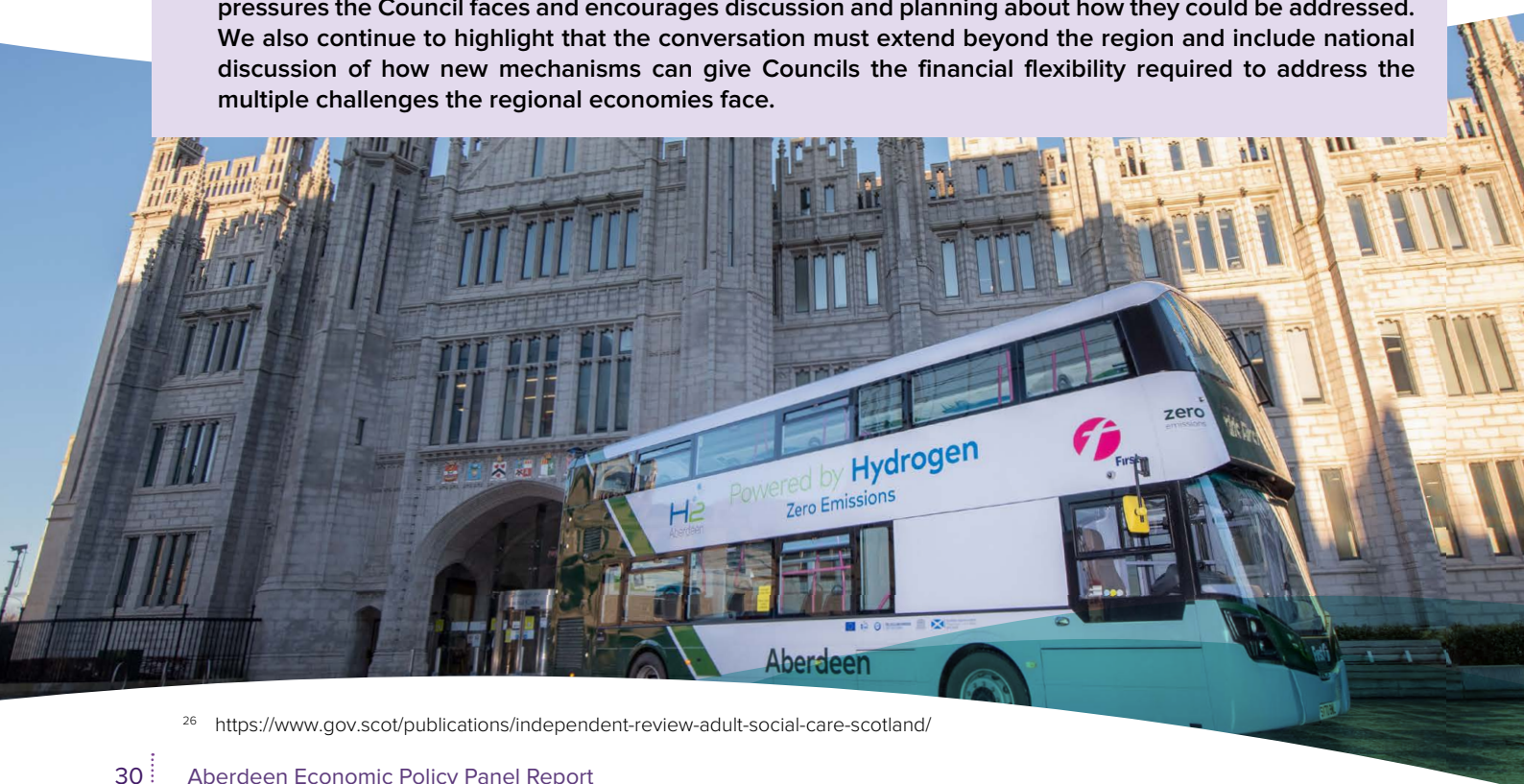
In the 2019 report we recommended the Council should produce an annual fiscal risks report setting out the long-run constraints that might impact upon the Council's financial position under different scenarios for revenue and expenditure given the pressures on local government finance. Since then, as was noted in the 2020 report the financial position has worsened as the UK's fiscal position deteriorated putting greater pressure on local government finances.

As was acknowledged last year, Aberdeen City Council has put in place its Financial Recovery Plan which identified the initial extent of the financial impacts of COVID-19 on local finances in 2020/21. The Plan also shows how the resulting deficit will be met, largely through downward adjustments of the revenue budget. This has continued this year and quarter 2 reporting at the Council confirmed the budgetary position is stretched this year. The longer-term financial pressures are increasing however, with lower levels of customer income forecast, leading to greater reliance on grant funding. The income from P&J Live has been thoroughly depressed. The pipeline of events for next year is more positive and for conferences is good, for example Offshore Europe 2022, but there remains considerable uncertainty about the recovery in large-scale events with the ongoing spread of the virus. Further, the publication of the Feeley report, An Independent Review of Adult Social Care in Scotland²⁶ presents a financial challenge to the future of local government funding post-2026. Future Scottish Government funds are increasingly diverted towards priority areas including health, meaning that local government funding will continue to be squeezed in real terms. This was confirmed in Scottish Budget 2022/23 with the core local government budget down slightly in real terms in 2022/23. Although additional funding was allocated, it covers additional priorities and commitments in area such as social care. The financial resilience framework put in place in November 2021 starts to provide measures that over time will help the council to identify where and when action should be taken to protect and strengthen its finances.

In early 2022 a new fiscal framework will be published. COSLA will then come forward with a new fiscal framework for local government and the Scottish Government. This will bring more clarity to the financial relationship councils have with the Scottish Government, with the aim of improving financial planning and sustainability in local government.

Increased emphasis on the levelling up and shared prosperity agendas from UK Government adds a different dimension to financial opportunities for Scottish councils and in Aberdeen already £20 million has been awarded for investment in city centre infrastructure.

11. In light of the long-term financial uncertainty, we reiterate the need to conduct sensitivity analysis of the region's local government finances including the level of Scottish Government funding that will be provided in the Local Government Settlement. This is necessary to highlight the ongoing structural pressures the Council faces and encourages discussion and planning about how they could be addressed. We also continue to highlight that the conversation must extend beyond the region and include national discussion of how new mechanisms can give Councils the financial flexibility required to address the multiple challenges the regional economies face.



²⁶ <https://www.gov.scot/publications/independent-review-adult-social-care-scotland/>

