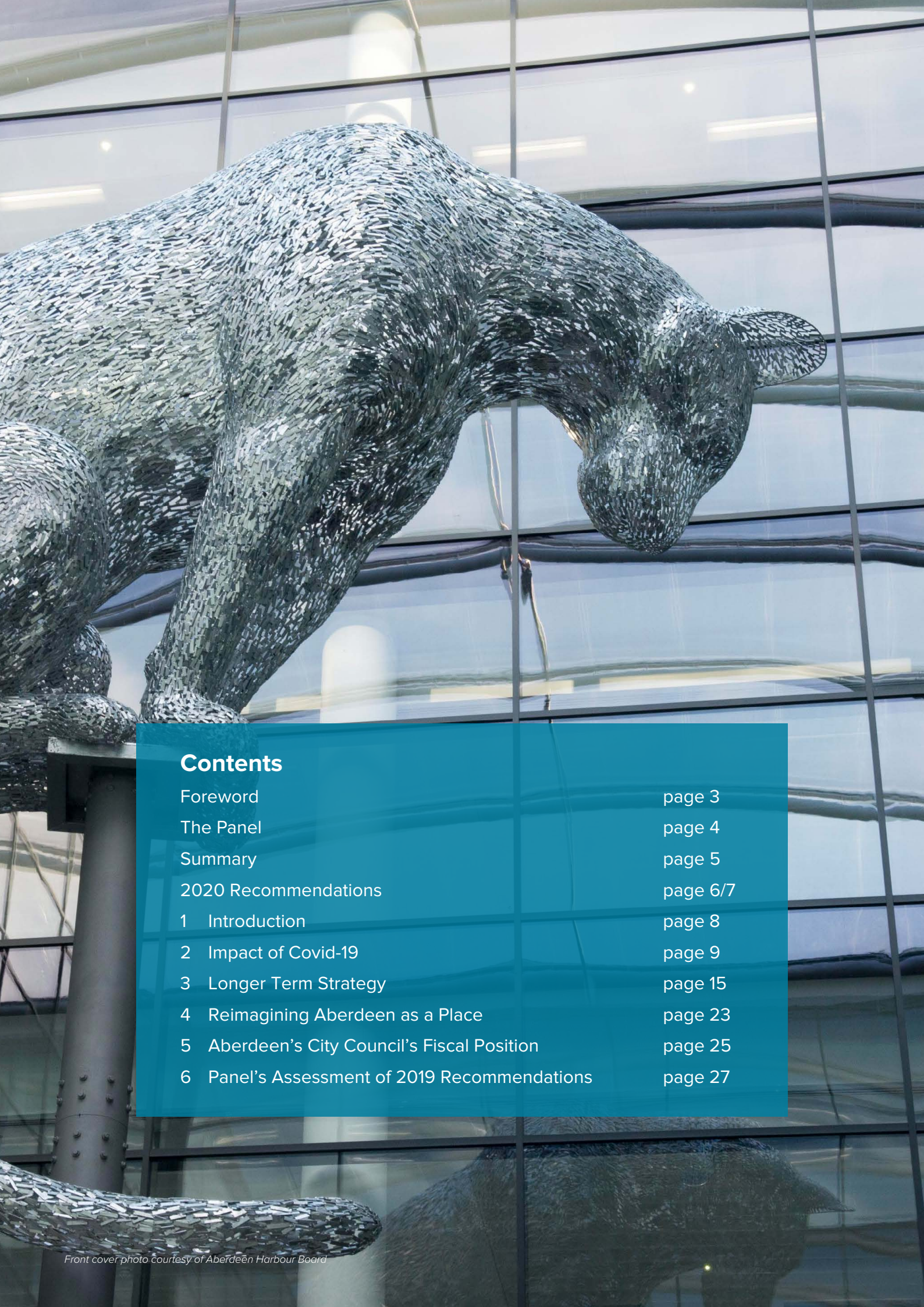


# **ABERDEEN ECONOMIC POLICY PANEL REPORT**

**NOVEMBER 2020**



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## Foreword

**This is the third 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 Aberdeen Region, Scottish, and international economies. The Panel has undertaken its own analysis and also considered any other 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 Aberdeen regional economy, building on the broader longer-term trends described in the 2018 and 2019 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.

Panel members have met with stakeholders including: Aberdeen and Grampian Chamber of Commerce (AGCC); Aberdeen City Council political leaders and officers; Aberdeenshire Council political leaders and officers; Deloitte; Federation of Small Businesses (FSB); Aberdeen City and Shire Hotels Association; Aberdeen Harbour Board; Aberdeen International Airport; Bon Accord Centre; Burness Paull; CBRE; Internet for Business; Knight Frank; KPMG; Offshore Renewable Energy Catapult; Oil and Gas Authority; Oil and Gas Technology Centre; Oil and Gas UK; Opportunity North East (ONE); P&J Live; Pinsent Masons; Ryden; Scottish Development International (SDI); 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

### Area of Analysis

For the purposes of the analysis, the 'Aberdeen Region' 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. It should be noted that the negative outlook is not a comment on the state of the local economy, Aberdeen, or the Council. It reflects the rating of the UK Government and the wider uncertainty around Brexit.

It is important in terms of investor confidence in Aberdeen City Council that the authority maintains its credit rating level. 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.

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, 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 existing and future investors. With this in mind, 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

Doctor Hanan Morsy, Dougie Peedle and Professor Graeme Roy prepared the 2020 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 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:** Director of the Fraser of Allander Institute (FAI) and Head of the Economics Department at the University of Strathclyde, Graeme oversees the work of the FAI, which for 45 years has been a leading independent research institute focused on the Scottish economy. He is a former Senior Civil Servant in the Scottish Government, where he was both a Senior Economic Adviser and Head of the First Minister's Policy Unit. Graeme is a member of various public sector advisory boards and a past independent adviser to the Scottish Parliament's Economy, Jobs and Fair Work Committee.



## Summary

### **This is our third annual report as the Aberdeen Economic Policy Panel.**

It comes at a time of significant global economic challenge. The Covid-19 pandemic has led to unprecedented restrictions being placed on key aspects of our day-to-day lives. The economic fallout from this crisis will last for years.

In our report, we review the most up-to-date information on how the Aberdeen Region economy is coping with the downturn. Many key aspects of the local economy, from tourism through to oil and gas, have been badly impacted by the crisis. The next few months are likely to continue to be challenging, with any recovery only likely to gather momentum once the public health emergency subsides.

At such uncertain and challenging times it can be too easy to put forward all manner of new ideas and policy recommendations for the future. This would be a mistake. In recent years, Aberdeen has made good progress in re-positioning itself for the long-term opportunities and challenges that will face the region. This includes investment in key infrastructure and a focus on skills, energy transition, and economic diversification.

In our view, Covid-19 does not change these priorities. Instead, it simply re-emphasises the importance of ensuring delivery and increasing the pace at which policy responds. This is the key conclusion of our report.

The city has strong economic foundations on which to build and the economy will come through this crisis. But a relentless focus upon delivery, clear prioritisation and co-creation of policy solutions with the business community, skills providers and the third sector will be key to ensuring that the region continues to prosper in the years ahead. A clear route-map for change, including the transition to net zero, would be welcome.

Once again, we emphasise that the Aberdeen Region cannot achieve its ambitions on its own. Close working with the UK and Scottish Government will be crucial, particularly when local budgets are likely to be squeezed in the years ahead. Aberdeen's success will be the UK's and Scotland's success. Greater local flexibility and autonomy should remain a key area for discussion.

One area that the Panel does believe should receive greater focus in the months ahead is 'Aberdeen: the place'. The future of city centres, office space and traditional retail, are likely to look quite different in a post-Covid-19 world than it did in the past. This poses a challenge to all cities and Aberdeen is no different, but it has advantages too, most notably its high quality of life and natural environment.

Positioning the Aberdeen Region as an attractive place to live, with strong wellbeing, has the potential to be a key distinctive feature of the Aberdeen economic development story in the years to come. This will potentially require a radical re-imagining of key city centre public and private sector assets.

Once again, we are grateful for the support of stakeholders across the region who gave their time to offer us their insights in challenging circumstances.

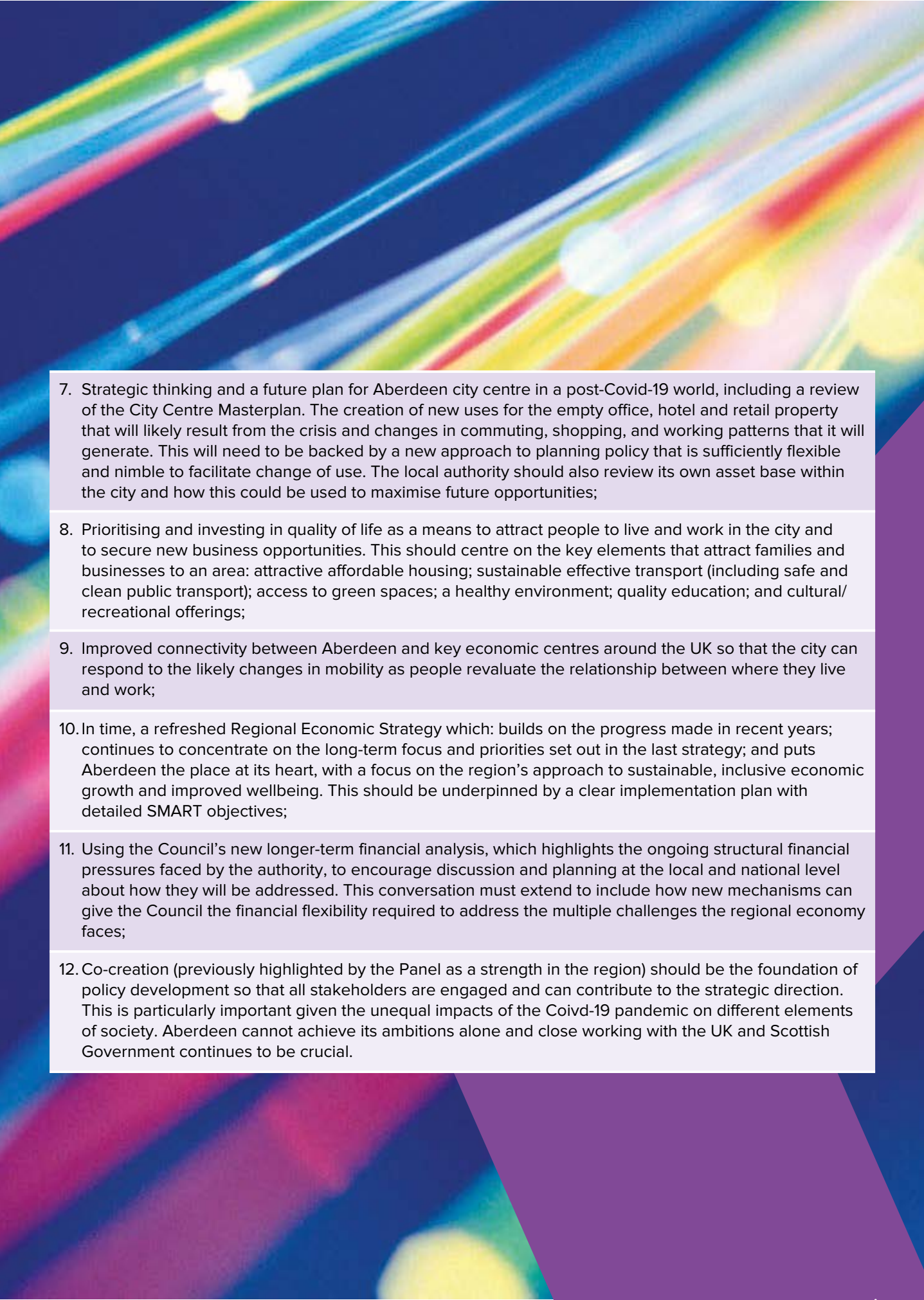
Although the views in the report are that of the Panel, the assistance of Aberdeen City Council officers in the preparation of this report has been greatly appreciated.

## 2020 Recommendations

The Panel's previous reports highlighted the long-term challenges and opportunities that face the Aberdeen economy. It is clear from the analysis in this report that while many of these challenges have not changed in nature, they have increased in scale as we face unprecedented economic trends and heightened the urgency of the response as a result of the global Covid-19 pandemic. Under such circumstances the Panel believes that while the initial response to the health and economic crisis will rightly take lots of attention, the spotlight should remain fixed on the longer-term challenges and the pace of change increased.

This report sets out why the time is right for Aberdeen to reimagine itself as a place to live, work, invest and do business and in doing so, build much greater resilience into the local economy. Our recommendations to achieve this are:

1. The Panel's overarching recommendation is that this is done by setting out a new *Route Map for the Transformation of Aberdeen the Place*. It will need to adapt and be flexible to changing economic conditions and have a clear focus on implementation. It requires that the Panel's recommendations from previous reports are adhered to and that it has the key ingredients set out below;
2. A new and enhanced approach to diversification which builds on the sectoral approach already identified and looks to go further and faster in establishing a wider range of economic activities in the region;
3. Building on the digital strand of the City Region Deal and strengthening the technology ecosystem to support the establishment of new businesses and improve the digital infrastructure;
4. Ensuring that the transition to net zero continues at pace and addresses all three essential components of:
  - the transition within the energy sector into renewable energy sources;
  - the transition of the wider city economy to low carbon economic sectors (and businesses within existing sectors to low carbon activities);
  - the transformation of the city itself to net zero through greener travel, enhanced energy efficiency, and provision of accessible and connected green space;
5. An updated skills strategy that takes account of the existing skills gaps, the labour market implications of the Covid-19 economic crisis (particularly for the young, those people who will lose their jobs and those who may wish to work from home in the future) and how the longer-term skills challenges change as we emerge from the crisis;
6. Reassessing infrastructure plans at the local level and ensuring that sufficient priority is given to investing in the fundamental assets (economic, social, human and natural) that will improve the attractiveness of Aberdeen the place. This needs to be complemented by a more ambitious approach to infrastructure investment from the Scottish and UK Governments which accelerates the transition to net zero and improves connectivity for Aberdeen;

- 
7. Strategic thinking and a future plan for Aberdeen city centre in a post-Covid-19 world, including a review of the City Centre Masterplan. The creation of new uses for the empty office, hotel and retail property that will likely result from the crisis and changes in commuting, shopping, and working patterns that it will generate. This will need to be backed by a new approach to planning policy that is sufficiently flexible and nimble to facilitate change of use. The local authority should also review its own asset base within the city and how this could be used to maximise future opportunities;
  8. Prioritising and investing in quality of life as a means to attract people to live and work in the city and to secure new business opportunities. This should centre on the key elements that attract families and businesses to an area: attractive affordable housing; sustainable effective transport (including safe and clean public transport); access to green spaces; a healthy environment; quality education; and cultural/ recreational offerings;
  9. Improved connectivity between Aberdeen and key economic centres around the UK so that the city can respond to the likely changes in mobility as people reevaluate the relationship between where they live and work;
  10. In time, a refreshed Regional Economic Strategy which: builds on the progress made in recent years; continues to concentrate on the long-term focus and priorities set out in the last strategy; and puts Aberdeen the place at its heart, with a focus on the region's approach to sustainable, inclusive economic growth and improved wellbeing. This should be underpinned by a clear implementation plan with detailed SMART objectives;
  11. Using the Council's new longer-term financial analysis, which highlights the ongoing structural financial pressures faced by the authority, to encourage discussion and planning at the local and national level about how they will be addressed. This conversation must extend to include how new mechanisms can give the Council the financial flexibility required to address the multiple challenges the regional economy faces;
  12. Co-creation (previously highlighted by the Panel as a strength in the region) should be the foundation of policy development so that all stakeholders are engaged and can contribute to the strategic direction. This is particularly important given the unequal impacts of the Covid-19 pandemic on different elements of society. Aberdeen cannot achieve its ambitions alone and close working with the UK and Scottish Government continues to be crucial.

## Latest Trends in the Aberdeen Region

### 1 Introduction

Unsurprisingly, much of our analysis is dominated by the Covid-19 pandemic and the impact on the Aberdeen Region economy.

Covid-19 has ushered in the greatest global economic crisis in more than a generation. The legacy effects for the economy will last for years.

It is important, however, to not lose sight of the underlying economic performance of the Aberdeen Region and the challenges and opportunities it faces more broadly.

The themes that we have highlighted in previous reports, from energy transition through to diversification and skills, remain just as crucial to the long-term economic success of the region as they did before.

It is essential to balance the need for continued short-term support through the crisis with retaining a laser-like focus upon core long-term priorities.

We begin by summarising the latest economic indicators for the local economy. For further details see the North East of Scotland data repository, North East Performs<sup>1</sup>.

### Pre-Covid-19 economic trends and performance

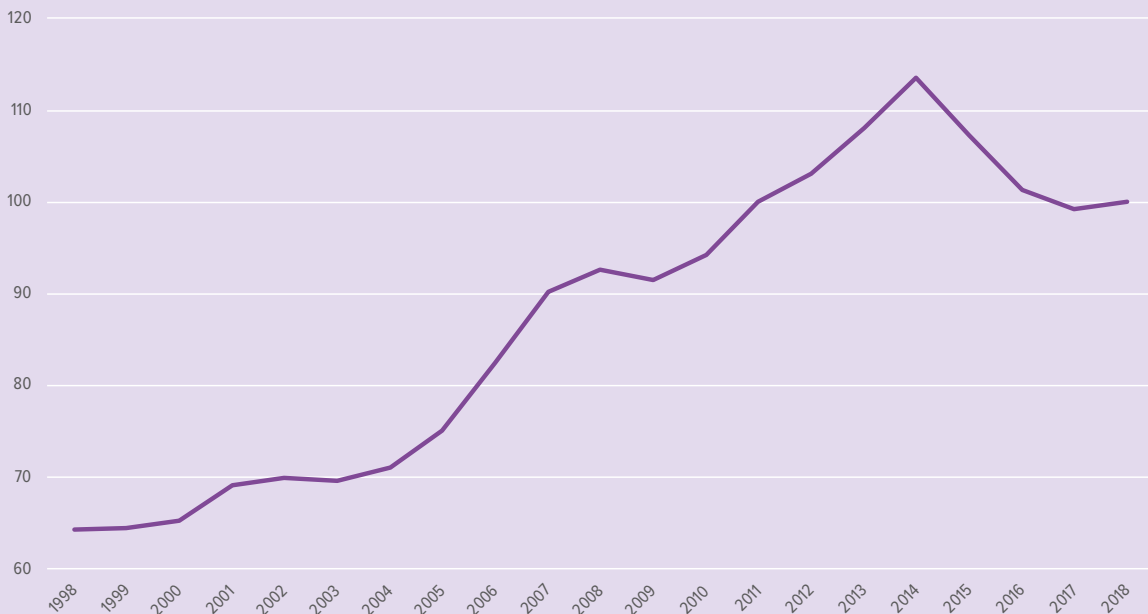
As discussed in previous reports, Aberdeen and the wider North East region is one of the most prosperous parts of the UK. Levels of economic activity, entrepreneurship and business dynamism outstrip most other parts of the country.

But the wealth this creates is not shared equally across the city and region, which has pockets of social deprivation and poverty.

At the same time, the Aberdeen Region has faced significant economic challenges in recent years. The downturn in oil and gas from 2014 onwards led to a sharp decline in day-to-day economic output. Conditions stabilised in 2018, with a modest increase in real GVA for the first time since 2014.

#### North East Scotland Gross Value Added - Index (2018=100)

Source: ONS



<sup>1</sup> <https://investaberdeen.co.uk/why-aberdeen/economy/north-east-performs>



Despite recent challenges, on a GVA per head basis (an approximate guide of relative long-term economic performance), the Aberdeen Region remained some 41.9% and 29.1% above the Scottish and UK averages respectively.

Consistent with this, the Aberdeen Region has historically had employment rates in excess of Scottish and UK averages.

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. In 2019, average earnings were £32,915 – over 9% higher than the Scottish average<sup>2</sup>.

But we also know that the region faces long-term challenges, which we've highlighted in previous reports. For example, the population is ageing. The region continues to face challenges in attracting workers with the right skills – an issue likely to be exacerbated by Brexit or national policy choices.

A major challenge is of course the transition from oil and gas to renewables sources of energy. The North Sea has been a major source of wealth for the region for more than five decades. But this transition brings opportunities too, particularly in transforming the region into a European energy hub.

These economic indicators point to the Aberdeen Region having strong foundations to build upon, but they also offer an important signal of the need to diversify and to future-proof this economic success for the next generation and beyond.

## 2 Impact of Covid-19

### The world is facing a crisis like no other in recent history

Like every other city around the world, Aberdeen, and its economic outlook, has been turned on its head by the fallout from the Covid-19 pandemic.

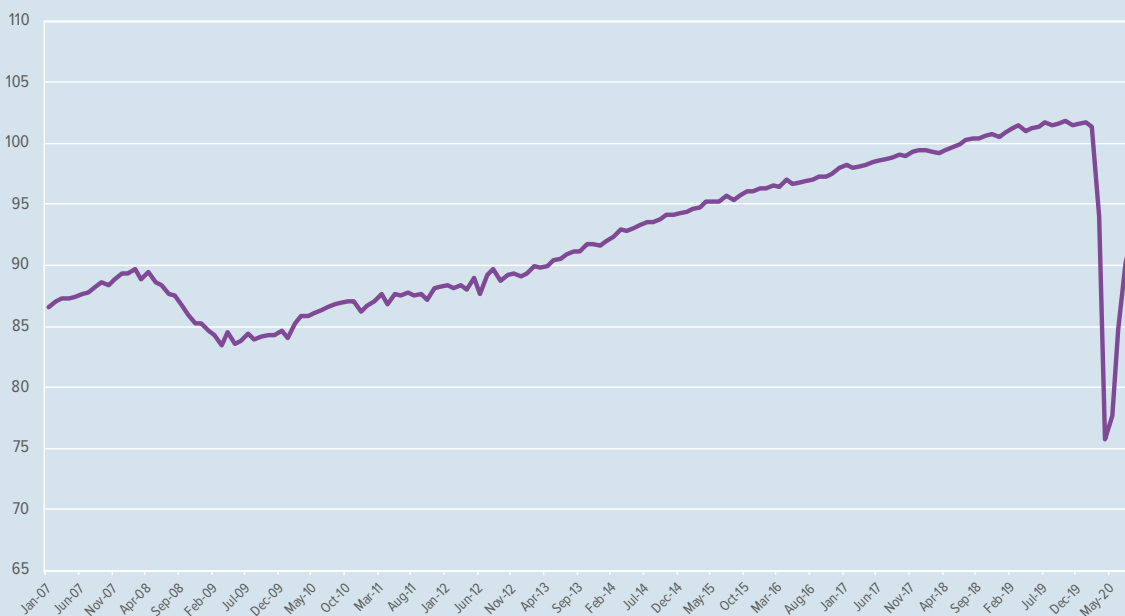
This crisis is like no other. The shutting down of large parts of our economy has led to the sharpest fall in economic activity since modern records began.

World output shrunk by more than 10% between the start of 2020 and the summer. Even with a recovery underway, consensus forecasts point to the global economy being 5% smaller at the end of 2020 compared to 2019.

The UK and Scotland have been particularly badly hit.

In Scotland for example, GDP fell by 24% between February and April. To put this in context, during the 2008-2009 recession the UK economy fell by no more than 1% in a single month and the fall from peak to trough was 6%.

UK GDP Monthly Index - January 2007-August 2020



<sup>2</sup> Office for National Statistics



Whilst the economy has picked up since April, by August Scottish GDP was still about 10% below its February level. In some sectors, such as hospitality and tourism, it is closer to 50% below.

The Aberdeen Region economy has not been immune from this global economic crisis.

### The region faces multiple shocks

A particular challenge for policymakers is the multiple nature of shocks impacting on the local economy. These are across different sectors of the economy and include the crucial energy sector.

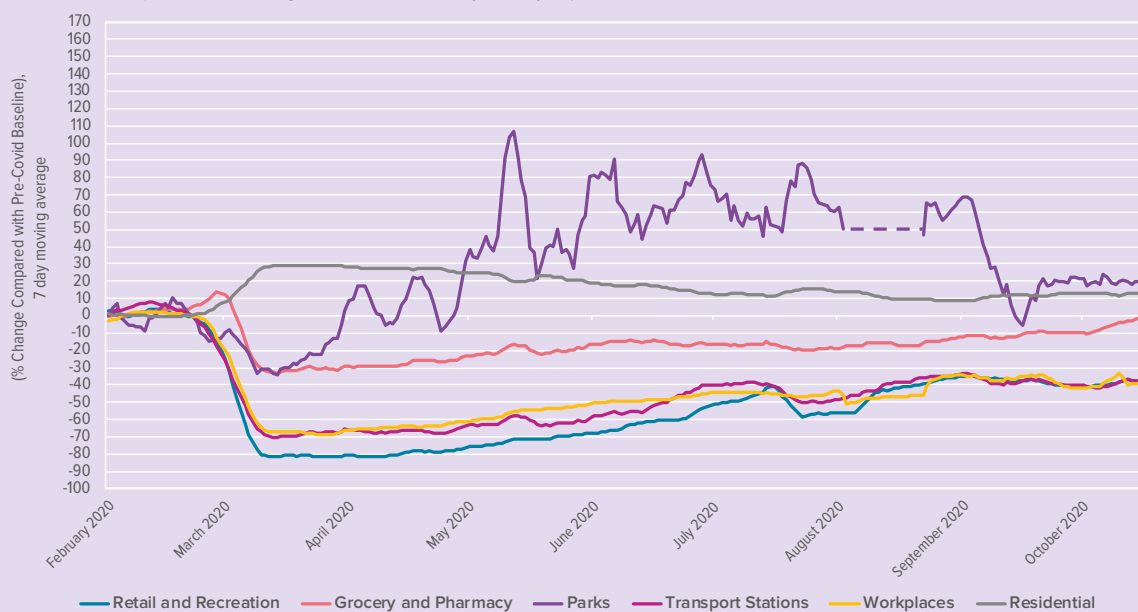
Large parts of the economy, particularly the hospitality, leisure, and entertainment sectors, were effectively shut down for months. Even now as restrictions are lifted, many of them operate under significant restrictions which will continue over the coming months.

The tourism industry, a key employer in the region, has been badly impacted. So too have small scale city centre businesses which rely upon day-to-day spending of office workers and day visitors. The imposition of a local lockdown in August 2020 exacerbated this.

To illustrate the scale of the challenge, the chart below shows the fall in the number of people present in different areas in Aberdeen pre- and post-Covid-19.

#### Aberdeen City Mobility Data - February-October 2020

Baseline = February 2020 Source: Google COVID-19 Community Mobility Reports



It shows a huge fall in mobility (apart from residential areas and parks), with city centre footfall down from more than 70,000 to just 10,000 a day during lockdown and rising only partially since.

Home working in the UK rose from 6% before the pandemic to 43% in the first month of lockdown and was still at 36% in June<sup>3</sup>. Much of retail activity has shifted online. Online sales in the UK are up more than 50% since the lockdown began. It is clear that the shift away from traditional retail that we had been seeing in recent years has only accelerated as a result of the pandemic.

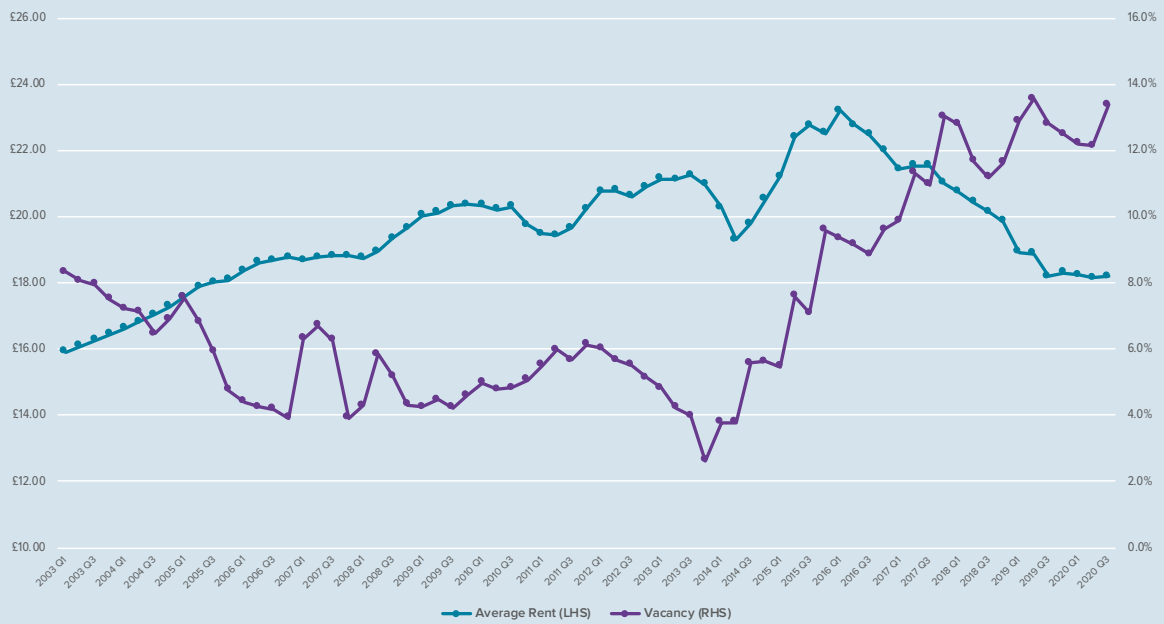
<sup>3</sup> Felstead, A and Reuschke, D (2020) 'Homeworking in the UK: before and during the 2020 lockdown'



All this comes on the back of a challenging period for commercial property in the city. Office rental prices have been falling since 2015 to around £18 per square foot and office vacancy rates have risen to more than 13% from around 3% in 2014<sup>4</sup>. Whilst rental prices are broadly comparable with those in Edinburgh and Glasgow, vacancy rates are much lower in these cities, at 5.5% in Edinburgh and 8.3% in Glasgow<sup>5</sup>.

### Office Market Vacancy Rate and Average Rental Price - Aberdeen, 2010-2020

Source: Costar



More broadly, across manufacturing and other services, supply chains have been dislocated<sup>6</sup>, export markets closed and customers cancelling order books as demand has been scaled back.

<sup>4</sup> Costar

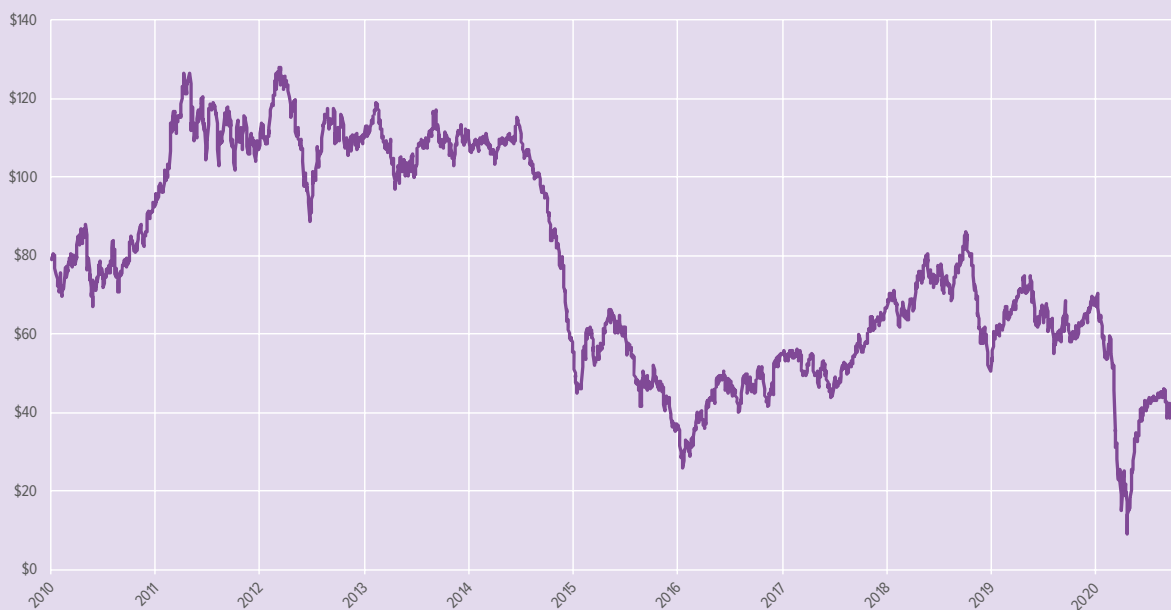
<sup>5</sup> Costar

<sup>6</sup> Deloitte, Covid-19 Managing Supply Chain Risk and Disruption



On top of all this, the low oil price – currently trading at around \$40 but having fallen to an average \$18 per barrel during April 2020 at the beginning of lockdown – poses a fresh challenge to the region’s energy sector, coming only a few years after the last crisis.

**Brent Crude Oil Price (Barrel of Oil Equivalent Per Day in \$) 2010-2020**



Overall, it may be too early to say whether or not the Aberdeen Region has been more or less impacted than the rest of the country.

However modelling by the Fraser of Allander Institute, based upon the industrial mix of each local authority, suggests that the Aberdeen economy may be more exposed to the immediate fallout from Covid-19 than the Scottish average. The FAI estimated that between February and June 2020, Aberdeen’s economy was impacted negatively by more than one percentage point higher than the Scottish average.

As we discuss below, other evidence, particularly in relation to labour market impacts, paints a similar picture.

### **A job crisis has been delayed, but risks remain**

In response to the sharp fall in economic activity, the UK Government implemented a rescue package unprecedented both in scale and coverage.

This included one of the most generous furlough schemes in the Organisation for Economic Co-operation and Development (OECD), a temporary cut to VAT for the hospitality sector, and a mortgage holiday for homeowners. Businesses have benefited from the range of support schemes available from different tiers of government, including the Scottish Government.

About a third of eligible workers (35,600 people) were furloughed in Aberdeen and Aberdeenshire (36,400), which is in line with the Scottish average. More than 90% of employees of accommodation and food companies which have paused trading have been furloughed, compared to 84% of employees of all companies.

But these measures cannot fully offset all of the challenges facing business and are likely to be withdrawn before the economic effects of the crisis are over.

AGCC data shows that just over half (56%) of businesses in the Aberdeen Region reported that the government schemes available would prevent their organisation from making redundancies in the short term. However, just under half (49%) stated that in the medium term the currently available schemes would not prevent them from making redundancies. In addition, a similar proportion (48%) did not know if the schemes would be able to prevent them from making redundancies in the long term<sup>7</sup>.

<sup>7</sup> AGCC Quarterly Economic Survey 2020, Q2.



The local response has been two-fold.

Firstly, the City Council developed a Socio-Economic Rescue Plan, an immediate response to the impact of Covid-19 on Aberdeen. It provides support to business to alleviate cashflow pressures, labour market responses, wellbeing responses, and includes the delivery of a Spaces for People project around travel and physical distancing in the City.

Secondly, the Council has responded to a huge rise in demand for services, particularly around support for rental costs, financial assistance and advice, free school meal entitlement, educational support and homelessness.

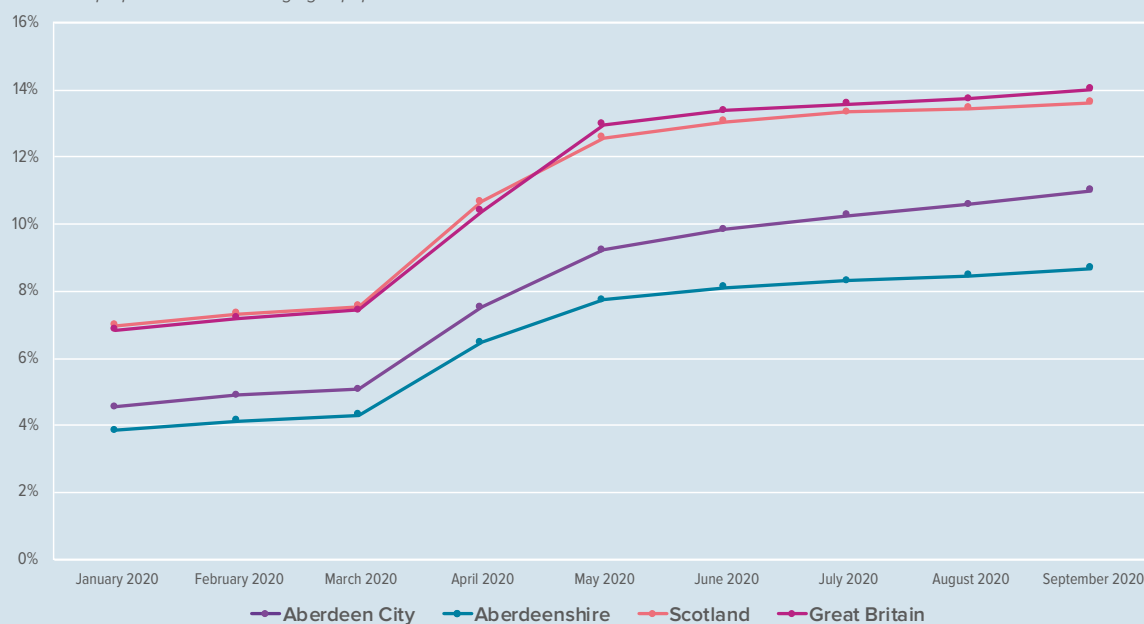
These national and local measures have, for now, helped to stave off a sharper rise in unemployment, but these measures can only do so much.

Already there are warning signs:

- The numbers in receipt of Universal Credit in Aberdeen City, reflecting both a rise in unemployment but also a decline in incomes, had more than doubled by September 2020 to 11% of the working age population. This was a proportionately greater increase than across the rest of Scotland and the UK<sup>8</sup>.

### Universal Credit Recipient Rate - Aberdeen, Aberdeenshire, Scotland & UK, 2020

*\*Rate as a proportion of the working aged population Source: DWP*



- Between March and September 2020, Aberdeen topped the list of Partnership Action for Continuing Employment (PACE) notifications, accounting for 35% of all PACE notifications, some 6,400 jobs. Aberdeenshire had second ranking, accounting for a further 10% (1,838 jobs). Aberdeen's notifications amounted to more than four times that of Edinburgh and six times that of Glasgow.
- By September 2020, the number of available vacancies in Aberdeen had fallen by about 60% since the start of the pandemic, more than the Scottish average of a 40% decline<sup>9</sup>.

<sup>8</sup> The same proportionately greater increase in the Aberdeen Region is observed in the claimant count.

<sup>9</sup> Adzuna, a UK job search engine



## Outlook remains highly uncertain

There is significant uncertainty over the outlook for the recovery both globally and locally.

What is clear is that the next few months will be difficult. Recent Covid-19 case numbers and the onset of the winter months mean that large-scale social distancing is here to stay for the foreseeable future.

Many businesses which were already operating under significant stress are likely to suffer further under the recently announced new restrictions.

It is no surprise that business confidence remains weak. AGCC survey data suggests that more than half (52%) of businesses in the Aberdeen Region believe their profitability will worsen in the next 12 months, compared with only 28% which think it will improve. 52% report their workforce decreased in the previous three months and a further 42% expect this to further decrease in the next three months. This compares with only 11% which expect it to increase<sup>10</sup>.

Looking further forward: on the upside, if a vaccine becomes available in the near future we could see growth pick up as confidence returns. However, even in this scenario, it is likely to be a slow recovery.

If there are delays and/or the spread of the virus continues to rise sharply, then the outlook could be much more challenging.

A key challenge for many businesses is navigating through a cycle of increasing then easing restrictions. This is bad for planning and resilience.

What we do not know with any certainty is what the legacy effects of this crisis will be on output, jobs, and productivity. The degree to which behaviours return to normal and over what time period is uncertain, but the economy that does emerge from this crisis – and the businesses and jobs that it supports – will look quite different.

The Bank of England is forecasting that the UK will not recover to pre Covid-19 levels until end of 2021. The Scottish Fiscal Commission, Ernst & Young, KPMG and the IMF believe that the recovery could stretch into 2022 and possibly beyond.

We can draw three important conclusions from all this.

- Firstly, the Aberdeen Region economy must prepare itself for a challenging few months as the crisis will continue to impact all walks of life for the foreseeable future;
- Secondly, any recovery is likely to be gradual, with numerous set-backs. Building resilience will be key;
- Thirdly, while there could be an extended period of uncertainty, the economy will recover. Whilst it is correct that there is a focus on protecting jobs and livelihoods, it is crucial that there remains a focus upon the long-term drivers of success that will secure the prosperity of the region. It is here – on issues such as diversification, infrastructure, investment and skills, the transition to net zero, and building resilience – that the strategic decisions that the Council can take will have the greatest impact. Many of the recommendations from our previous reports remain as pertinent today as they did at the time they were made.

<sup>10</sup> AGCC Quarterly Economic Survey 2020, Q3



### 3 Longer Term Strategy

The Covid-19 pandemic is a major challenge for the Aberdeen Region, but the longer-term issues highlighted in our previous reports remain just as relevant. This section looks at progress against these challenges.

#### Diversification

The Aberdeen Region’s oil and gas sector has been one of the success stories of UK industry over the last 50 years, but the need for diversification arises from:

- Oil and gas has helped create enormous wealth, but leaves the region exposed to global shocks outside of its control;
- The oil and gas sector is maturing towards the end of its lifetime;
- The transition to new energy sources is vital to meeting Scotland’s and the UK’s net zero commitments.

Thus, key to the success of the region’s economic future is the transition from oil and gas to green energy and the broadening out of its economic base to sectors outside of energy.

The recent focus has included tourism, food and drink and the life science sectors. The diversification challenge is more urgent and further compounded as a result of Covid-19. Advancing Aberdeen’s current diversification plans will serve well and further refining of the strategy may be considered as the economic landscape in the UK and globally evolves post Covid-19.

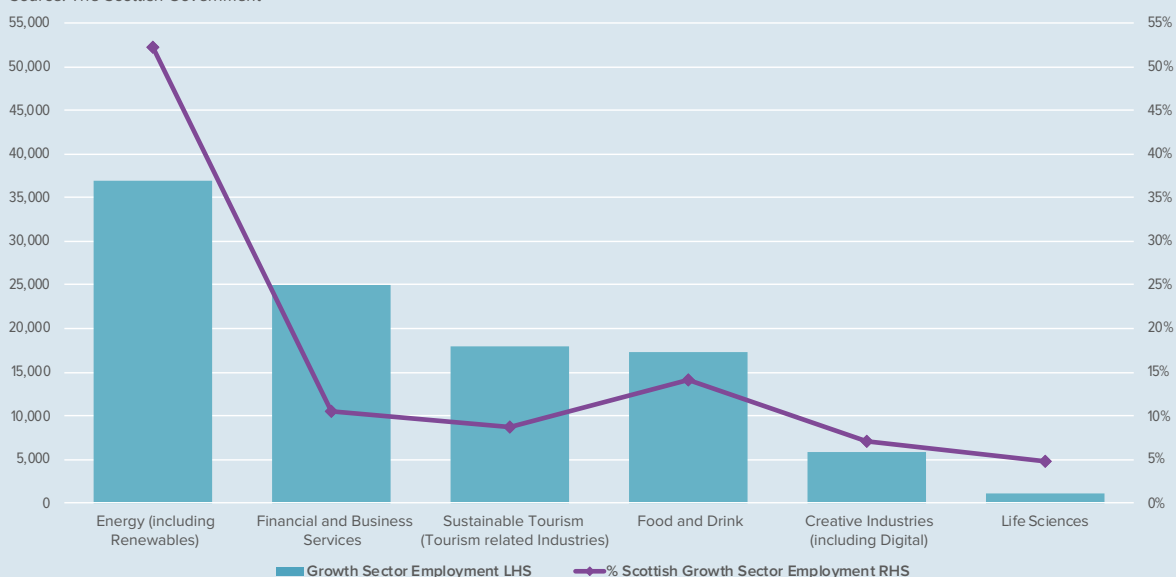
Indeed, making Aberdeen attractive as a place to live, work, and do business will lay the foundations for further diversification. Consideration should be given as to how to capitalise on this (more below).

Moving away from energy will not be easy. Few sectors can compete in terms of economic value and earnings. The GVA per head of employment for each of these sectors and the numbers employed (as a national share) are shown below. They demonstrate a differing picture across sectors, with challenges around both increasing sector share and increasing high value productive jobs within some of the sectors.

However, it is better to be diversifying into sectors of success in the future, and looking to maximise opportunities, than not to.

**Growth Sector Employment & National Share (%), The Aberdeen Region, 2018**

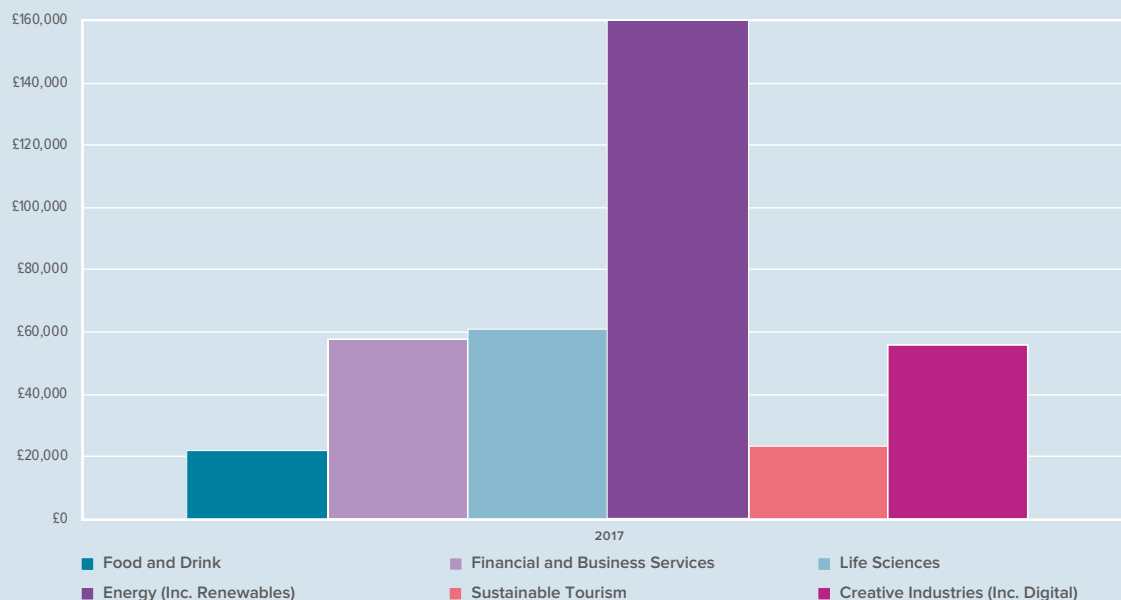
Source: The Scottish Government





## The Aberdeen Region Gross Value Added Per Head of Employment - 2017

Source: The Scottish Government.



## Tourism

Tourism has, understandably, been hit hard by Covid-19. The UN World Tourism Organisation predicts that world international tourism will fall by between 60% and 80% in 2020<sup>11</sup>. Covid-19 restrictions, particularly early in the summer, shut down many tourism businesses. Hotels in Aberdeen that are more reliant on business or corporate trade have fared particularly badly. Hotels are reporting a revenue drop of between 60% and 80% compared with 2019<sup>12</sup>.

But the sector does have the potential to make a significant long-term contribution to the success of the region, once the challenges of Covid-19 pass. The region's tourism ambition, as outlined in the Destination Aberdeen and Aberdeenshire Tourism Strategy 2018-2023, is to grow visitor spend to £1billion a year by 2023.

Through the delivery of the Game Changer Programme for Tourism Business, which offers practical support and business tools to regional tourism business leaders, ONE and Scottish Enterprise enable companies to realise their growth potential and maximise their market opportunities.

The rise in demand for staycations is likely to be a trend that continues. The longer-term challenge for tourism is how the offer is sustainable and presented to the consumer. North East Adventure Tourism (NEAT) aims to capitalise on the area's natural assets and make the region a world-class destination for adventure sports tourism. Within five years, it has been estimated that projects included in NEAT could add more than 300,000 visitors and 250 new jobs to the region<sup>13</sup>.

The biggest challenge therefore is bridging over the current short-term challenges, through to the future, and ensuring that as many businesses and jobs as possible are protected, so that when travel does resume the sector has a strong base to build upon.

A key challenge, however, is that many businesses operate on tight margins. Even small drop-offs in demand put businesses at risk.

<sup>11</sup> UNWTO, <https://www.unwto.org/news/covid-19-international-tourist-numbers-could-fall-60-80-in-2020>

<sup>12</sup> Economic Policy Panel Stakeholder Consultation 2020.

<sup>13</sup> <https://www.opportunitynortheast.com/tourism/north-east-adventure-tourism>





## Food and Drink

Already, the Aberdeen Region is estimated to account for a fifth of Scotland's food and drink manufacturing output and almost a quarter of its primary agricultural output.

The industry ambition is to grow North East Scotland's food, drink, agriculture, and seafood sector turnover by 5% per annum, double output exports by 2030, and increase productivity by 25% by 2025<sup>14</sup>.

We heard the Aberdeen City Region Deal SeedPod project should create opportunities to pilot advanced manufacturing processes and technology, scale-up production, inspire new product development and provide access to global market insights.

This sector faces its own opportunities and challenges. Brexit, which will pose challenges in terms of exports, may also create greater opportunities to supply the UK market than before.

## Life Sciences

Life sciences is another sector that has been identified by stakeholders as a key strength of the region.

In 2018, 1,075 people were employed in life sciences industries in Aberdeen and Aberdeenshire (4.7% of the total life sciences employment in Scotland). The target is to double the number of companies in the region's life sciences cluster by 2027.

This sector will remain a key growth opportunity over the long-term.

For life science start-ups and high growth enterprises, custom-built laboratory and office facilities will be provided through Bio Hub, a £40million Aberdeen City Region Deal project.

The application of digital solutions has the potential to transform the sector and deliver rapid advances in research, diagnosis and treatment of health conditions, as well as to produce better outcomes for patients, clinicians and researchers. The AI Fracture Diagnosis Project will see up to £240,000 invested in innovative data technology.

## Digital

The pandemic has accelerated the digital transformation of our economy. As we have argued in earlier reports, this is an area that Aberdeen should look to prioritise and invest in.

We see three key areas of opportunity.

Firstly, the digital sector in the region has found opportunities to invest around the oil and gas sector, supporting it to diversify and grow into new forms of energy and the green economy.

Secondly, more broadly, the digital changes to our economy bring opportunities beyond energy into all aspects of the local economy, from food and drink through to day-to-day services.

Thirdly, the region is well placed to support the emergence of a strong digital sector in its own right.

The digital strand of the City Region Deal seeks to deliver digital infrastructure and enhancement projects to meet future connectivity demand, including the aim of Aberdeen to be a gigabit city by June 2021.

In the longer term, an opportunity to be part of the development of a technology ecosystem exists in Aberdeen, as described in the Logan report<sup>15</sup>. The report identifies three areas to improve the way the ecosystem works to increase both the number of start-ups and scale ups:

- Education and Talent: at school level, at university (and parallel access paths), and at start-up/scale-up level;
- Infrastructure: including physical co-location environments for start-ups and the social infrastructure required to support a vibrant technology ecosystem;
- Funding: including grant funding, public, and private investment regimens.

Aberdeen could benefit from replicating this approach. It would both reinforce the sector approach, but crucially be around wider infrastructure so that growth sectors needn't be selected for the region in advance.

<sup>14</sup> Opportunity North East

<sup>15</sup> <https://www.gov.scot/news/putting-start-ups-at-heart-of-recovery/>



## Energy Transition

The impact of the Covid-19 pandemic on the oil and gas sector has been dramatic. Total offshore personnel fell from 11,000 to 7,000 in the early part of the pandemic<sup>16</sup> and supply chain work is uncertain.

Oil and gas will, however, remain a key source of prosperity for decades to come.

But it is vital that the region continues to transition to wider sources of energy, to become a true energy capital of Europe. Similarly, there are wider opportunities to use the decades of expertise built up in offshore oil and gas in other technologies and manufacturing priorities. The pandemic has perhaps narrowed the window of opportunity to achieve this goal, but it is vital that this opportunity is grasped.

As we have set out before, this transition needs to be all-encompassing including:

- the transition within the energy sector into renewable energy sources, hydrogen, and carbon capture storage;
- the transition of the wider city economy to low carbon economic sectors (and businesses within existing sectors to low carbon activities);
- the transformation to net zero of the city itself through public transport and energy efficient housing and buildings.

All three are essential for meeting Scotland's and the UK's net zero targets and providing a crucial national employment base for the future.

The scale of the prize is huge. It is estimated that the UK Continental Shelf (UKCS) could support, in combination with complementary investments in onshore energy infrastructure, about 60% of the UK's decarbonisation requirements<sup>17</sup>.

<sup>16</sup> Oil and Gas UK

<sup>17</sup> Oil and Gas Authority Energy Integration Report 2020



The Net Zero Solution Centre has an Integrated Energy Vision<sup>18</sup> of how the North Sea and UKCS can play a part in transition. The level of investment required here is significant; in excess of £430 billion will be required across oil and gas, offshore renewables, hydrogen and carbon capture and storage. This provides significant opportunities for the region.

Aberdeen faces numerous competitors, but the city has advantages to draw upon:

- more than 50 years of expertise and reputation in delivery from oil and gas;
- a strong skills base to draw upon;
- its coastal location;
- the harbour expansion development;
- funding for an energy transition zone and hydrogen park;
- networks and relationships with the hydrogen and wind sector partners and stakeholders.

Progress has been made in recent years, although the scale of ambition and pace of delivery needs to be increased.

Aberdeen City Council has published a Net Zero Vision for the city and has developed a Strategic Infrastructure Plan<sup>19</sup> for the projects it sees as crucial to the transition to a climate positive city. A Council Co-Leader will chair a new Leadership Board of national stakeholders with strategic oversight over progress.

We heard of an exciting new development whereby Aberdeen City Council and BP have announced a new partnership which will see BP serve as the Council's strategic planning and technical adviser toward a climate positive city. Both organisations will work together to explore opportunities including:

- hydrogen for transport, heat and power;
- built environment to understand and improve building energy use and efficiency;
- mobility and electrification to develop solutions for clean, low emission vehicles and increase the fuel efficiency of the council's fleets;
- circular economy exploring value-adding opportunities such as energy from waste.

We welcome the Council's progress over the last year. But pace of delivery is crucial. The Leadership Board should be tasked to ensure that Aberdeen sets a fast pace as a sustainable place to live and work, getting travel, transport, housing and green space right so that it has a real competitive advantage.

As the Net Zero Solution Centre has outlined, there needs to be investment on a scale far greater than has occurred before. The delivery of a route-map for how these ambitions will be secured would be a positive.

<sup>18</sup> <https://www.theogtc.com/media/3875/closing-the-gap-summary-report.pdf>

<sup>19</sup> <https://committees.aberdeencity.gov.uk/documents/s109163/Appendix%20-%20-%20Infrastructure%20Plan.pdf>



## Skills

As we have stressed in our earlier reports, skills remain key to the future success of the region.

In 2017, almost a quarter (21%) of all vacancies in the Aberdeen Region were skills shortage vacancies. Further, more than one third (38%) of establishments in the region had at least one member of staff who was under-utilised<sup>20</sup>.

In looking forward, there is a number of important issues to consider and respond to.

Migration data suggests that the region had been losing people to the rest of Scotland, UK and the EU compared with pre-2015, although the trend appears at least in 2019 to have been halted.

### Components of Total Migration - The Aberdeen Region, 2012-2019

Source: National Records for Scotland



Nonetheless, the region has a different economy from the rest of the UK and is highly dependent on migrant labour across many sectors. We have stressed before the importance of the region's skills needs in any future policy discussions at a national level.

Brexit and Covid-19 have the potential to heighten existing skills gaps in the region and highlight the importance of providing re-training and re-skilling opportunities for people. There is a need to build on the existing focus within the Regional Skills Strategy on the challenges faced by young people entering the labour market, particularly in terms of apprenticeship provision and Developing the Young Workforce - given they appear to be one of the hardest hit groups in the Covid-19 economic crisis. UK and Scottish Government youth employment schemes Kickstart and the Young Person Guarantee will help to address the challenges faced by the young workforce. It is encouraging that both universities have quickly offered digital skills programmes as a result of the pandemic. More collaboration between the universities and the private sector will continue to be necessary to plug this gap.

On a positive note, the energy transition will open up significant new demand for different types of skills than in the past. In the Aberdeen Region, this will mean a huge investment in skills for the green economy.

The region's higher and further education sector is a key strength and will remain so in the future. Universities do face a challenging outlook however, both in terms of the impact of Brexit and Covid-19 on international students and the future of EU research funding.

<sup>20</sup> Department for Education (2018) Employer Skills Survey: <https://www.gov.uk/government/publications/employer-skills-survey-2017-scotland-toolkit>



The Regional Skills Strategy is now more than three years old and, given the major labour market implications of the Covid-19 economic crisis, should be refreshed to ensure that the focus remains pertinent to the economic challenges arising from this crisis and how they change the long-term nature of the skills requirements in the Aberdeen economy.

### Resilience to shocks

Alongside trying to improve the long-term growth rate of the economy, it is also important to consider the underlying resilience of that growth.

More resilient economies can withstand the fall-out from shocks, many of which are outside the control or influence of local communities, leading to greater stability and more sustainable employment over time.

No economy can be immune from economic change, but diversifying across both sectors and types of business can help to reduce, though not eliminate, such risks.

The picture for the Aberdeen Region is mixed. For example, Oxford Economics Vulnerability Index<sup>21</sup> finds Aberdeenshire as Scotland's 4th most vulnerable authority, citing low broadband speeds, low rates of working at home, as well as a concentration of small businesses contributing to an area's vulnerability. On the other hand, Aberdeen was Scotland's 12th most resilient authority with greater diversification of business type, but it too suffers from lower broadband speeds and greater dependence on sectors such as oil and gas.

As we have written before, Brexit is likely to undermine the ability of most parts of the UK to cope with change. It is likely to lower the demand for our exports to the EU (thus narrowing our demand-base) and limit the supply of workers in many of our key sectors: adult social care; tourism; fish processing; food and drink; and energy.

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. This does not require a change of approach to that set out in our previous reports; but adds to the scale of the response required and the speed with which it should be delivered.

### Infrastructure

As we have highlighted in previous reports, infrastructure is key to the long-term success of a region.

By infrastructure, we mean all aspects of public investment from connectivity, digital through to schools, the city centre itself, and natural infrastructure such as green space. Whilst the local authority can prioritise some investments at a city level, the region depends upon national decision making and prioritisation for the vast majority of its future infrastructure pipeline.

At a local level, a number of new infrastructure projects have been delivered, or continued to progress, since our last report. These include:

- **Aberdeen Art Gallery:** The Art Gallery reopened to visitors on 2 November 2019. The capital investment of £34.6m increased the footprint of the building by 27%. By the time the Gallery closed in March 2020 more than 140,000 people had visited with the venue on track to be the region's number one visitor attraction, exceeding the projected annual visitor figure of 235,000. The redevelopment received the Project of the Year 2020 award from the Aberdeen Society of Architects and won the prestigious Art Fund Museum of the Year 2020 prize.
- **P&J Live:** P&J Live development construction was completed on 2 August 2019. The venue has hosted numerous events since opening in September 2019. In March 2020, Covid-19 enforced the closure of the venue along with the two hotels on-site and to date the venue has not re-opened for events. Both the Hilton Hotel and the Aloft Hotel since re-opened albeit with Covid-19 restrictions in place. There will be no concerts until at least spring 2021 and there are now challenges around whether there will be the same demand for conferences and events as previously.
- **Aberdeen Harbour:** Aberdeen Harbour Expansion is a £370 million investment to expand the region's marine facilities. It is due to open in 2022 with a six-eight-month delay due to Covid-19<sup>22</sup>. The economic benefits of the expansion are, however, for the long-term. The delay to the project is not anticipated to negatively impact on Aberdeen's ability to maximise the opportunities from the current ScotWind licensing rounds, and in particular offshore wind production.

<sup>21</sup> Oxford Economics 2020

<sup>22</sup> <https://www.bbc.co.uk/news/uk-scotland-north-east-orkney-shetland-53415388>



- **Aberdeen International Airport:** At Aberdeen airport, the demise of Flybe accounted for the loss of 20% of all airport business. The airport has been impacted further by the Covid-19 travel restrictions and has traded this year on massively reduced revenue and with the vast majority of previous costs. Passenger levels are not expected to recover to 2019 levels until 2024. New orders for aircraft have been cancelled and airlines are also only considering the most profitable routes. There have been huge falls in aircraft load factors<sup>23</sup>. For the long-term success of the airport, it will need to attract key routes to European hubs. In order for the region to compete on a level playing field with other regions, including the Highlands and Islands, a level playing field with regard to exemptions from Air Passenger Duty is required and the UK government should consider this as part of its regional connectivity review<sup>24</sup>. We recommend that Aberdeen City Council continues to lobby both the Scottish and UK governments on this.

The Scottish Government is consulting on a draft Infrastructure Investment Plan which covers the financial years 2021 to 2025<sup>25</sup>. Many of these proposed investments have important implications for the region, including:

- Deliver significantly improved rail services, including Aberdeen to the Central Belt, to meet growing demand, drive more usage, and decarbonise rail passenger and freight services;
- Investing £525 million, aligned with local authority and UK Government funds, to deliver the next generation of city region and regional growth deals;
- Supporting industry and manufacturing to transform to low carbon through:
  - o £34 million Scottish Industrial Energy Transformation Fund for energy efficiency technologies and decarbonisation studies; and
  - o a £26 million Low Carbon Manufacturing Challenge Fund for innovation in technology, processes and infrastructure;
- Supporting the energy sector to grow and diversify, including through a £62million Energy Transition Fund, focused on the Aberdeen Region;
- Supporting the development of Carbon Capture, Utilisation and Storage (CCUS) projects in Scotland and develop, by 2022, a £5million Carbon Capture and Utilisation Challenge Fund.

The draft Infrastructure Investment Plan contains a number of welcome investments that will help support the transition to net zero in Aberdeen, but the urgency and scale required to deliver on the new emissions targets is lacking. The Panel urge all stakeholders in Aberdeen, including the City Council, to continue to push the Scottish and UK Governments to allocate more infrastructure investment to support the energy transition.

<sup>23</sup> Economic Policy Panel Stakeholder Consultation 2020

<sup>24</sup> <https://www.gov.uk/government/speeches/union-connectivity-review>

<sup>25</sup> <https://www.gov.scot/publications/national-mission-local-impact-draft-infrastructure-investment-plan-scotland-202122-202526/>



## 4 Reimagining Aberdeen as a Place

The pandemic has had a major impact upon city centres across the globe. Cities thrive because of the economic and social benefits of close proximity and the day-to-day interactions between businesses and the people who live there. By concentrating businesses together, benefits from agglomeration and clustering emerge, helping to boost innovation, creativity and productivity.

But the nature of the Covid-19 crisis has turned all of this on its head. Across the UK, average city centre footfall fell to a low of 15% of pre-lockdown footfall at the height of the lockdown.

Cities are particularly impacted from restrictions given the implications that this has for office use, retail and leisure activities.

The impact of the Covid-19 crisis is likely to have impacts over both the short and long-term:

- Firstly, the longer the restrictions last the greater the economic hit to many key sectors within cities;
- Secondly, there is the possibility of a more fundamental change to the way in which cities operate, whether that be through a permanent rise in home working or a shift to online retail;
- Thirdly, people are likely to place increasing value on quality of life in their decisions on where to locate so green spaces, local facilities, congestion, transport, etc are likely to be of increasing importance for the successful cities of the future.

This poses a challenge for a city like Aberdeen, as both a regional hub for the North East of Scotland and as a key city in Europe for energy jobs and activity. A clear strategy for responding to these challenges is required.

But any talk of the demise of cities is overblown. Cities have coped with major upheaval before. The fundamentals behind what attracts people to cities, whether individuals, businesses, students, or families, will remain a driver of economic activity and investment in the years to come. There are also basic constraints on any major shifts in economic activity, whether that be housing, connectivity or infrastructure.

In addition, as with any change, there are also opportunities.

One implication of the Covid-19 crisis, combined with the climate emergency transition to net zero, makes the scale of change bigger and the opportunities larger. Considerations of wellbeing, work-life balance, and health will be an increasingly important decision factor for individuals considering where to live and for businesses looking at where to locate and grow their operations. Large and crowded cities, particularly those with packed public transport systems, are likely to be under pressure and therein lie opportunities for places like Aberdeen where such challenges are not as acute.

At the same time, any shift to home and agile working opens up the radius for job search and working to a much greater extent. This could work in both directions, for people living in Aberdeen and working elsewhere, and people living elsewhere but working in Aberdeen. Many of the barriers to labour market access, such as commuting patterns for people with caring responsibilities, become less of an issue.

In short, 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 on quality of life to use this as a key part of its economic strategy in the years to come.

In short, we see three big issues for the Council to reflect upon – issues that whilst always being a consideration we have raised, are now more important in a post-Covid-19 world:

1. The importance of developing a rapid response to protect the future of Aberdeen city centre in the light of the ongoing immediate challenges posed by Covid-19;
2. The significance of strategic thinking about a future plan for Aberdeen city centre in a post-Covid-19 world where home working and online retail are likely to be more prominent features than in the past; and
3. The opportunities that may come the way of a city like Aberdeen through prioritising quality of living as a means to attract people to live and work in the city, and to secure new investment and business opportunities.



## Policy focus

We are only just beginning to fully understand the potential implications of Covid-19 for our economy, and our urban economies too.

It is too early therefore to say that there is an obvious policy intervention that a city like Aberdeen could put in place to respond to the challenges and opportunities that will be evident in a post-Covid-19 world.

Nonetheless there are a number of areas where the focus should be:

- The city will need to consider how other uses can be made of the empty office, hotel and retail property that will likely result from the crisis. With a likely decline in commuters and shoppers in the long-term, how can assets, including those of the Council, be repurposed to promote city centre living?;
- Ensuring the City Council's planning policy is sufficiently flexible and nimble to facilitate change of use and allow Aberdeen to get ahead of changes to city centre usage that Covid-19 has accelerated;
- A strategy to continue to enhance the city centre as a location for new businesses and as a place to live and work, centred on the key elements that attract families and businesses to an area:
  - o Attractive affordable housing that is joined up with sustainable transport facilities, such as cycle routes, public transport;
  - o Expansion of and increased access to green spaces;
  - o Investment in quality education;
  - o Effective public transport across the city and region that is safe and clean;
- A focused strategy on place centred on Aberdeen city centre, for example cultural and recreational offerings (building on the work done in recent years, e.g. Art Gallery, Music Hall etc);
- Placing quality of life at the heart of Aberdeen's strategic economic and business offer – including the transition to net zero;
- How to support development of city centre workspaces that suit new, more flexible ways of working;
- Improved connectivity between Aberdeen and key economic centres around the UK so that if the Covid-19 crisis leads to increased mobility between where people live and work Aberdeen can capitalise on these changes;
- A high-quality digital offering that will become increasingly important with the likely permanent increases in home working rates;
- Ways to support a network of incubation centres for new sectors and hubs – e.g. local workspaces in areas such as digital and transition to net zero, supported by local education hubs, social infrastructure etc. – to create clusters and agglomeration in a new normal.
- Continue to explore innovative ways to support the transition – e.g. local government finance flexibilities, partnerships with the private sector, and engagement with national government on key issues such as connectivity.





## 5 Aberdeen's City Council's Fiscal Position

Since the last report, the UK's fiscal position has deteriorated significantly, as have the pressures on local government finances. According to the IFS, councils in England face a £3.1bn financial shortfall as a result of Covid-19. Of the shortfall, £2bn will hit budgets this year, with £1.1bn relating to falls in local tax revenues that can be spread over the next three years<sup>26</sup>. The IFS analysis highlights that the Covid-19 crisis is having an immediate effect on council finances by increasing spending on local services and reducing income from sales, fees and charges. These pressures are expected to persist in the medium-term.

As part of the COVID-19 fiscal response, a package of extra funding and financial flexibilities – which could be worth up to £750 million – has recently been agreed by the Scottish Government in partnership with COSLA<sup>27</sup>. It remains unclear however, whether such funds will be sufficient to help councils navigate through both the sharp increase in demand for their services and the fall in incomes.

It is encouraging in these circumstances that 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.

The Panel welcomes this financial planning, but notes that Covid-19 has added to the uncertainty and the extent to which any of the revenue and expenditure impacts will persist in the medium-term is not yet clear. What is clear is that Covid-19 has added to the structural financial pressures facing the Council. For example, the revenue impacts from the reduction in income from P&J Live could last for an extended period and beyond the duration of the pandemic itself.

In 2019 we recommended that since there continued to be significant pressure on local government finances, 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 additional uncertainty created by Covid-19 it is particularly welcome that Aberdeen City Council has undertaken longer-term analysis<sup>28</sup> of its funding context and the associated risks, which was published in October 2020. The work includes sensitivity analysis of the level of Scottish Government funding that will be provided in the Local Government Settlement in the short, medium, and long-term, as well as all other income sources to the Council. It recognises the ongoing financial risk to the Council associated with Covid-19. This is very welcome and meets our recommendation in that it highlights the ongoing structural pressures the Council faces and encourages discussion and planning about how they could be addressed.

<sup>26</sup> Institute for Fiscal Studies September 2020

<sup>27</sup> <https://www.gov.scot/news/supporting-local-government-recovery/>

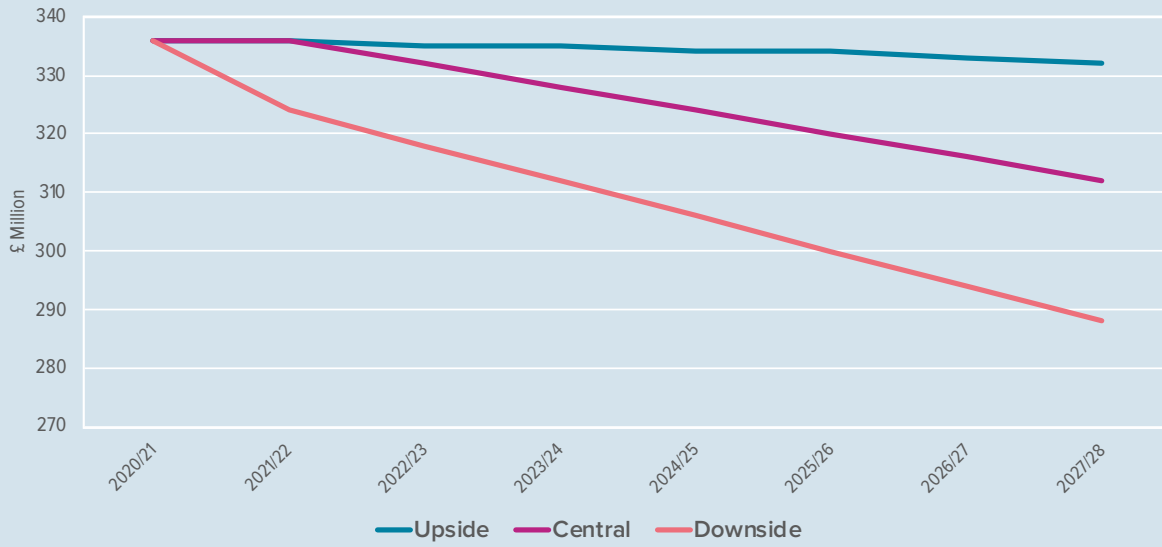
<sup>28</sup> <https://committees.aberdeencity.gov.uk/documents/s115120/MFTS%202020%20FINAL%20-%20Appendix%201.pdf>



The chart below from officers' analysis highlights the Council's cash terms forecasts from the Scottish Government. Three scenarios have been developed based upon different trends in reductions in funding experienced in recent years.

### Scottish Government Funding Forecast - 2020/21-2027/28

£million Cash Terms Source: Aberdeen City Council



Similar scenario analysis has been conducted for all other sources of funding, including council tax revenue, fees, charges, and other incomes and discretionary powers. This is usefully summarised in three scenarios for source-based funding and income forecasts, and three scenarios for source-based expenditure forecasts. These are combined to produce budget gap scenarios to inform planning:

General Fund Budget Gap	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m	£m	£m
Upside Scenario	0	28	32	34	38	40	43	47
Central Scenario	0	30	49	65	82	98	114	131
Downside Scenario	0	33	80	106	132	157	184	211

Source: Aberdeen City Council

These longer-term financial pressures illustrate concerns we have raised in previous reports. The fact that a gap emerges under all three scenarios highlights that there will need to be a discussion on how this can be addressed at both the national and local level.

Our previous recommendations that the Council needs greater flexibility and other 'tools' for raising revenue at local level remain relevant. While progress on the workplace parking levy, visitor levy, and infrastructure levy could be helpful in this regard, the scale of adjustment is likely to be greater than what they can provide.

The Council cannot address the situation in isolation and greater clarity will be required of the UK and Scottish governments' funding positions, to aid long-term planning and decision making.



## 6 Panel's Assessment of 2019 Recommendations

The Panel has reviewed progress on its recommendations in the 2019 report. Positive developments include:

- In response to the recommendation to move faster and identify the regional approach to net zero:
  - The development of the Council's Net Zero Vision for Aberdeen and a Strategic Infrastructure Plan for Energy Transition;
  - The collaboration between the Council and BP on solutions in transport and mobility, circular economy, hydrogen and the built environment;
  - The creation of a new Leadership Board of national stakeholders to have strategic oversight over progress towards the Vision and drive delivery of the Vision;
- The creation of a Medium-term Financial Strategy Report<sup>29</sup> in October 2020 around fiscal risks and sensitivity analysis, which meets the recommendation for an annual fiscal assessment to strengthen strategic planning;
- The Council's Socio-Economic Rescue Plan<sup>30</sup> as a short-term response to the crisis and the immediate steps to take, reflects the need for policy to move faster and focus on implementation.

Some progress has been made on a number of other recommendations but there is still scope to progress these further:

- Economic development work has understandably been focussed around the Covid-19 crisis. In that light we welcome the review of the Regional Economic Strategy by the Operational Group and the ONE Board Economic Forum, and the creation of a refreshed vision statement. The intention to review the Regional Economic Strategy Action Plan is also welcome, although the Panel would reiterate its 2019 recommendation that the Plan should have SMART objectives;
- The Panel recognises that the Multi-Agency Transformation Management Group (MATMG) approach to infrastructure investment is now well established in relation to the city centre regeneration. However, the infrastructure priorities pre-Covid-19 will not necessarily be the same post-Covid-19 and the approach will need to reassess priorities and adjust plans accordingly. This will be an important focus for the MATMG going forward;
- The Scottish Government response to the 'Higgins report' on Covid-19 prioritising the Aberdeen Region and energy transition is both welcome and necessary, as is the Scottish Government announcement of a ring-fenced £62million fund for the region to progress energy transition projects. However, the scale of ambition and investment needs to be far greater;
- The Council has responded to UK Government and Scottish Government consultations on successor programmes to EU funding, prioritising areas of economic opportunities and influence over decision making. There has been limited progress on new regional support such as the UK Shared Prosperity Fund, but it will need to be tailored to the new challenges local economies face from the changing policy context. Funding decisions cannot be made solely on past or expected future economic performance or deprivation, and all three tiers of government will need to work together to deliver the transition to net zero.

There has been limited progress in the following areas:

- Aberdeen taking the regional lead on managing natural assets in the transition to net zero. The recommendations from the AGER Report<sup>31</sup> to the Scottish Government, and in particular the four capitals framework which the Scottish Government has accepted, could inform the intended review of the Regional Economic Strategy Action Plan. This could identify the actions needed to maintain and enhance Aberdeen's assets base, and in particular the natural assets of the coast, Deeside, green spaces etc that are all critical to the Aberdeen Region as a place. It also provides an opportunity for Aberdeen to be clearer about its version of sustainable, inclusive growth and its approach to wellbeing, which are all fundamental to defining Aberdeen the place;
- Understandably, on account of Covid-19 the Scottish Government has postponed legislation on the introduction of new measures such as the visitor levy. However, the requirement remains for Aberdeen as a place to have additional flexibility to deliver what is right for the region, which may differ from what is right for the rest of Scotland or the UK and will need the appropriate policy levers to do so.

<sup>29</sup> Aberdeen City Council, "Medium Term Financial Strategy for the Council's General Fund", October 2020

<sup>30</sup> <https://committees.aberdeencity.gov.uk/documents/s111955/Socio-Economic%20App%202.pdf>

<sup>31</sup> Towards a Robust, Resilient Wellbeing Economy for Scotland: Report of the Advisory Group on Economic Recovery, June 2020

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