

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	10 February 2011
DIRECTOR	Stewart Carruth
TITLE OF REPORT	General Fund Revenue Budget 2011/12 and indicative 2012/13 to 2015/16 Budget

REPORT NUMBER:

1. PURPOSE OF REPORT

- 1.1 To provide elected members with information to allow the setting of the Council Tax levels for the financial year 2011/12 as well as provisional Council Tax levels for the financial years 2012/13 to 2015/16. In turn, this will allow a capital programme for 2011/12 to be set as well as a provisional programme for future years.

2. RECOMMENDATION(S)

- 2.1 It is recommended that the Council consider the contents of this report and:
 - a) Make recommendations in regard to a final package of savings and efficiency options from those outlined to achieve a balanced budget taking account of growth pressures and feedback obtained as part of the Priority Based Budget (PBB) exercise.
 - b) To agree the level of Council Tax for the financial year 2011/12.
 - c) To agree the recommendation by the Head of Finance to retain working balances of 2.5% or approximately £11 million.

3. FINANCIAL IMPLICATIONS

- 3.1 The Council in anticipation of setting its budget for 2011/12 undertook an extensive Priority Based Budgeting exercise that reviewed all costs currently being incurred across Council services over a 5 year period.
- 3.2 This review led to a number of Service Options being identified by officers for consideration by elected members at the Council meeting on 15 December 2010. The Council accepted the recommendations on options which were agreed at a meeting of the Finance and Resources Committee on 2nd December 2010.
- 3.3 Appendix 3 to this report shows each service option by Directorate broken down into options deemed "Green" - approved option, "Amber" - options requiring further detail and "Red" - options that the Council decided at that point not to take further.
- 3.4 In setting the budget for 2011/12 the Council needs to recognise the need to have sufficient working balances to meet any unforeseen expenses during the financial year.
- 3.5 In being prudent the Head of Finance recommends that minimum working balances of 2.5% of net spend be retained and this would equate to approximately £11 million. It is further recommended that the Council, over the medium term, aims to have higher balances than this, with the target to have retained working balances of approximately 4% by 2015/16, or £18 million.
- 3.6 Based on the current reported out-turn position the Council is currently forecasting to have £11.1 million of reserves by 31 March 2011 which is in line with this policy to move to having a 4% balance on working balances.
- 3.7 It is proposed that further work which is currently being undertaken on the ear-marked commitments, is reported to the Council on the completion of the 2010/11 financial statements.

4. OTHER IMPLICATIONS

- 4.1 The Council is required to set its Council Tax levels before the 11 March in the financial year preceding that for which it is set as governed by the Local Government Finance Act 1992.
- 4.2 A major impact on the Council's position for 2011/12 and future years budgets is the current economic down turn of the United Kingdom economy and the subsequent impact this has had on the level of funding available to the public sector.

- 4.3 As a result of this Aberdeen City Council has received a reduction in the level of grant funding it receives in the financial year 2010/11. Prudently this can be expected for future years although the Scottish Government has not yet released funding levels beyond 2011/12.
- 4.4 Based on the current settlement figures from the Scottish Government the Council has been notified that it will receive £336.7 million in 2011/12, a reduction of £7.3 million compared to 2010/11.

5. BACKGROUND/MAIN ISSUES

- 5.1 The current position for 2011/12 is summarised in the following table and is broken down further in Appendix 1 of this report:

<u>Note</u>	<u>Funding</u>	<u>£</u> <u>million</u>	<u>£</u> <u>million</u>
1	Central Government Grants		336.715
2	Council Tax (including Arrears)		106.635
			<u>443.350</u>
	Add:		
	Trading Services Net Income		<u>6.961</u>
	Total Funding		450.311
	<u>Projected Expenditure</u>		
	Current Estimated Spend		476.164
3	Deduct: Officer Recommendations		(10.276)
	Deduct: Savings Approved		
4	15/12/10		<u>(9.440)</u>
	Total Projected Expenditure		456.448
	Total Projected Shortfall		(6.137)
	<u>Service Options Not Yet Taken</u>		
5	Deduct: Amber Options 15/12/10	5.589	
6	Deduct: Red Options 15/12/10	2.072	
7	Deduct: New Options	<u>0.548</u>	
	Total Service Options Available		8.209

Note 1 – This is the total funding notified to the Council per the Finance Circular 14/2010 and subsequent notified amendments.

Note 2 – A review of Council Tax has been undertaken and it is estimated that a small increase in the Band D equivalent properties for 2011/12 can be anticipated.

Note 3 – The officer recommendations are outlined in Appendix 1 under the “corporate Adjustments” section. It includes the use of a provision contained within the Council’s Balance Sheet for LATS fees penalties which is now unlikely to be required as it is anticipated that the Scottish Government will repeal this legislation. Failure to have this repealed would mean that this would have to be met from working balances, although the risk is anticipated as low.

HRA transfer refers to the transfer of properties from the General Fund to the HRA primarily in relation to surplus school sites. Asset Utilisation refers to examining the commercial viability of non-operational assets through a third party.

Note 4 – This is the service options categorised “Green” at the Council Committee on 15 December 2010.

Note 5 – This is the service options categorised “Amber” at the Council Committee on 15 December 2010.

Note 6 – This is the service options categorised “Red” at the Council Committee on 15 December 2010.

Note 7 – This is new options that are being proposed by officers following further work and review of service budgets.

5.2 It is worthwhile noting that as part of the overall settlement agreement provided by the Scottish Government the Council has to ensure that it has adequate budgetary provision to meet a number of items as laid down in the Settlement letter and are:

- To remain committed to the delivery of the current Single Outcome Agreements, the 3 jointly agreed social strategies and the Curriculum for Excellence.
- To a council tax freeze for 2011/12.
- To police officers being maintained at 17,234 throughout 2011-12.
- To maintain the pupil-teacher ratio in P1-P3, the crucial early years of primary school.
- To protect the number of teachers posts as far as possible in order to secure:
 - Places for all probationers who require a place under the induction scheme in August 2011;
 - Sufficient teaching posts available for all probationers who achieve Standard for Full Registration in summer 2011 (i.e. successfully complete their probation); and
 - A reduction in the total number of unemployed teachers.
- To an independently chaired review of all aspects of the McCrone Agreement, to report by June 2011 with the clear intention that its recommendations should be available for implementation before August 2012.
- To continue to deliver the shared Scottish Government/COSLA commitments on Free Personal Care, for which payments will be up rated in 2011/12.
- To continue to work with the Scottish Government towards implementation of the Carers and Young Carers Strategy at local level, including the maintenance of an extra 10,000 weeks respite provision.

5.3 Failure to meet these targets could potentially result in a loss of grant funding totalling £15.272 million.

Budget Assumptions

- 5.4 In preparing the service options for each service allowances were made for potential costs associated with them. Such costs would be for the purchase of external resources, specialist advice and compulsory redundancy payments for staff.
- 5.5 There is currently no budgeted pay award for any staff in 2011/12 in line with the announcements made by the UK Treasury and the Scottish Government. As such pay awards are not being budgeted for in the following financial year either.
- 5.6 However, the Council budget does include an allowance for staff increments which is now related to performance and further details on this will be reported in due course.
- 5.7 A number of provisions have also been made within the revenue budget to cover known cost increases for Non Domestic Rates (£900,000), utilities (£600,000), general provisions (£1 million) and Other Miscellaneous provisions (£400,000). The Council is entering national procurement agreements for its utilities bills and it is anticipated that the overall cost will be broadly neutral but a provisions has been provided for until final details are known.

Funding

- 5.8 The 2011/12 Non-Domestic Rate poundage rate has been set at 42.6 pence (up from 40.7 pence in 2010/11) by the Scottish Government. The large business supplement has also been set at 0.7 pence in the pound for businesses with a rateable value of over £35,000.
- 5.9 The Council continues to be one of the lowest funded Council's in Scotland on a per head of population basis. The Scottish average is currently (based on mid year estimates of 2008) £1,907.70 compared to this Council receiving £1,579.31.
- 5.10 If this Council was to receive the same funding as the local authority immediately placed above us in the league table it would receive in excess of additional funding of £22 million. If it were to receive the Scottish average it would receive an additional £70 million.
- 5.11 The Council is also awaiting the additional allocation from two other grant allocations. These are the Teachers Induction Scheme totaling £37.6 million for the whole of Scotland and also for the Protection of Teacher Posts of £15.6 million.
- 5.12 The current settlement for the Council is only for the financial year 2011/12 with no indicative budget for future years at present, although there are whole of Scotland figures that have been published. Therefore in projecting into future years it has been assumed that a similar reduction will be incurred as that for 2011/12.

Budget Movements 2010/11 to 2011/12

- 5.13 The statement attached in Appendix 2 illustrates the budget movement over each Directorate. Primarily, the cost pressures that have been allowed for are known contractual movements, staff increments and a number of internal transfers between directorates. Within Miscellaneous Services there are a number of movements to reflect increased capital financing charges, increased utility bills, Non Domestic Rates and a number of other corporate provisions.

5 Year Costed Business Plan

- 5.14 Appendix 1 illustrates the Council's 5 year position the data from which was derived from the Priority Based Budgeting exercise. It provides illustrative budgets for future years after taking into account estimated movements.
- 5.15 Officers have had to use their judgment in certain areas where data is not yet known. For example, the Scottish Government have only announced a one year settlement figure for local authorities. In setting the budget for the whole of Scotland the Cabinet Secretary for Finance and Sustainable Growth indicated that the estimated budget for future years would be relatively static but that a reduction would be experienced in real terms. Projections have been used to forecast into the future showing an overall reduction in the level of possible funding. It remains to be seen what the likely settlement position will be.
- 5.16 In developing the 5 year business plan projected demographic factors were examined from a number of sources to determine the level of increased demand on services over the period.
- 5.17 As elected members will appreciate a business plan is a working document that requires to be updated at regular intervals to reflect the changing financial and economic climate that the Council faces. As such, a full Business Plan will be brought before the Council on 23 February 2011 once the decisions from today's Council meeting are known.
- 5.18 This is because the Service Options that are opted for will have a material impact by year 5 of the business plan. The business plan should then be updated at 6 monthly intervals and reported to Committee to demonstrate not just the short term, or in year financial position, but also how the Council is performing against its medium term financial strategy as laid out in the business plan.
- 5.19 On a positive note the business plan demonstrates that over the 5 year period, depending on the final decisions taken around service options, the Council's level of working balances will increase to just over 4% of net spend, or £18 million.

- 5.20 The business plan therefore provides officers with a medium term financial goal to deliver over the 5 year period and removes the need to look at budgets on an annualised basis. That is not to say that the annual budget will not need to be reviewed and amended going forward.
- 5.21 Indeed the focus in future will be on performance within the financial year but also the impact on future years as clearly the failure to deliver service options will have a material impact in future years.

Working Balances

- 5.22 Appendix 4 to this report shows the position on working balances as at 1 April 2010 after taking account of the known commitments, as per the period 8 monitoring position for 2010/11. The period 8 monitoring illustrates that the Council is currently projecting an underspend of £192,000 leaving working balances at 31 March 2011 of £11.1 million.
- 5.23 However, the Council also has ear marked reserves totaling £18.2 million. A review of these items will be undertaken towards the end of the financial year to determine if they are still required. This will formulate part of the financial statements of the Council and will be reported in due course. These commitments are shown in Appendix 4.

Savings

- 5.24 Included within Appendix 3 of this report is a full breakdown of the service options from services. This includes two new proposals from Housing and Environment and two from Social Care and Wellbeing. Elected members will be aware that Council on 15 December approved an initial raft of measures and these are listed as Green options within the Appendix.

Summary

- 5.25 The Council is required to set a balanced budget for the forthcoming financial year. This report sets out the options available to elected members to determine a balanced budget for the financial year 2011/12.

6. IMPACT

- 6.1 The City Council will operate within overall financial constraints taking into account recommended accounting practice and policies.
- 6.2 Following approval of the Council's revenue budget notification of the Council Tax levels will be issued to households by the Revenue & Benefits Manager, providing 28 days notice.

7. BACKGROUND PAPERS

Finance Circular 14/2010 and 15/2010
Priority Based Budget Report v1.4b
Period 8 Out-turn position

8. REPORT AUTHOR DETAILS

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