

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE:</b>	Finance and Resources
<b>DATE:</b>	6 December 2011
<b>DIRECTOR:</b>	Stewart Carruth
<b>TITLE OF REPORT:</b>	General Fund Revenue Budget 2012/13 to 2016/17
<b>REPORT NUMBER:</b>	CG/11/152

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### 1. PURPOSE OF REPORT

The purpose of this report is to provide elected members with information to allow the setting of the council tax levels for the financial year 2012/13 as well as provisional levels for 2013/14 to 2016/17. In turn this will allow a balanced budget to be set for 2012/13 and subsequently a capital programme for 2012/13 to 2016/17 to be set.

### 2. RECOMMENDATION(S)

It is recommended that the Committee:

1. Notes the content of the report and refer the report to Council with any recommendations on Service Options;
2. Agree that the Service Options are prioritised;
3. Agree that elected members provide officers with their full budget proposals by 8 February 2012;

And that Council on 14 December 2011:

4. Agree the service options to be implemented for 2012/13 and future years to achieve a balanced budget taking account of growth pressures and feedback obtained as part of the ongoing Priority Based Budgeting (PBB) process (as detailed in Appendix 1 to this report); and
5. Agree the budget for each Service detailed in Appendix 2 to this report; and
6. To agree the level of council tax for the financial year 2012/13 and indicative level for 2016/17; and
7. To agree the recommendation of the Head of Finance to retain working balances of 2.5% or approximately £11.5 million;
8. Agree that the Capital programme be set such that no capital borrowing is undertaken and that the programme be set in line with the level of capital grant, capital receipts and contributions.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The Council has continued the implementation of a Priority Based Budgeting approach to review and examine all costs over a 5 year period. This builds on the previous exercise undertaken which formulated the Council's 5 Year Business Plan in August 2011.
- 3.2 In undertaking this review cost pressures that were previously inherent within the approved 5 year plan were re-tested and challenged to determine the impact of the assumptions that were used as part of the 2011/12 budget process. While these generally continued to apply there was further modelling work done around the demographic trends and demand led pressures.
- 3.3 This, coupled with the announcement of the Scottish Government on the anticipated level of funding available for the whole of Scotland Local Government spending limits, allowed greater clarity around the financial projections the Council is likely to face in future years.
- 3.4 The full analysis of the funding settlement is still awaited and is anticipated it will be received in early December 2011. While high level assumptions can be made around this, the final allocation for Aberdeen City Council is still awaited and this is covered further in the report.

### **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 but it is not invalid merely because it is set on or after that date.
- 4.2 The Scottish Government has indicated that it expects local authorities to maintain council tax levels at 2011/12 levels. Failure to do so could lead to a reduction in the level of funding that an individual authority may receive.
- 4.3 The Scottish Government has also indicated that all local authorities will receive, as a minimum, funding levels that guarantee each authority at least 85% of the Scottish per head of funding average. Aberdeen City Council currently receives less than this and will therefore benefit, although the final allocation has still to be announced.

## 5. REPORT

### Current Approved 5 Year Business Plan

- 5.1 The Council approved a 5 Year Business plan in August 2011 which demonstrated a balanced budget for 2011/12 and the further work that would be required to continue to strive towards a balanced position over the 5 year period. A balanced 5 year position, while modelled at a very low level, will by necessity contain inherent risks within it, especially given the current economic climate within which many European countries are now experiencing.
- 5.2 However, within this context the Council undertook a PBB exercise that demonstrated the estimated position between 2011/12 and 2015/16. This is illustrated in the table below:

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Funding	(450,311)	(441,662)	(434,959)	(431,560)	(431,354)
Other Funding	(10,276)	0	0	0	0
Projected Spend	476,164	491,655	511,500	526,276	536,717
Indicative Shortfall (10 Feb '11)	15,577	49,993	76,541	94,716	105,363

- 5.3 It can be seen from the table above that the Council faced significant cost pressures over the next 5 years if it did not address the situation. The PBB exercise aimed at identifying how this could be addressed by way of producing far reaching service options. Given the above position, coupled with the service options approved by Council in February and August 2011 the following estimated financial projections were made:

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Indicative Shortfall (10 Feb '11)	15,577	49,993	76,541	94,716	105,363

#### 2011/12 Council Approved Options - 10 February 2011

Total Service Options	(15,577)	(39,735)	(57,195)	(65,308)	(71,575)
Revised Deficit/(Surplus)	0	10,258	19,346	29,408	33,788

- 5.4 As part of the review of this process, and to allow a balanced budget for 2012/13 to be achieved the work around the PBB exercise was continued, and this is detailed later in this report and is shown at Appendix 1 of this report.

- 5.5 It is worth noting that the PBB exercise undertaken by the Council has been nationally recognised and in a recent report published by Audit Scotland the PBB approach adopted by Aberdeen City Council was highlighted as an effective case study for other organisations to follow. This was reported in the local media with the Press and Journal commenting how the council has turned around its financial planning to become “*cited by that very same organisation [Audit Scotland] as the epitome of fiscal prudence that others would do well to emulate*” (P&J editorial, 25 August 2011).
- 5.6 The PBB approach supports the vision for future services in Aberdeen and responds to the drivers for change. In the future services will become more efficient, effective and targeted. A fully inclusive approach to financial planning continues to be crucial in continuing to adopt a priority based budget (PBB) approach. This approach evolved from the council’s vision for the city of Aberdeen: that it is and remains a ‘vibrant, dynamic and aspirational city’.
- 5.7 This vision continues to enable the council’s elected administration leaders and directors to commit to six key priorities for the city:
- Provide for the needs of the most vulnerable people;
  - Help to ensure that all schoolchildren reach their potential;
  - Manage our waste better and increase recycling;
  - Encourage the building of new affordable housing;
  - Ensure a sustainable economic future for the city;
  - Ensure efficient and effective delivery of services by the council and with its partners.

#### **Financial Settlement**

- 5.8 The Scottish Government have announced the outcome of the “Scottish Spending Review 2011 and Draft Budget 2012-13” which provides details of the Local Government allocation for 2012/13 to 2014/15.
- 5.9 The above draft budget document indicates the funding that will be available for Scotland as a whole and does not provide indications of the likely level of funding by individual local authorities. Therefore the following assumptions have been made:
- The projected level of funding for Local Government in Scotland is based on the Scottish Government Settlement announcement;

- It assumes that all GAE indicators remain the same (which will not be the case but any variation is assumed to be minor at this point);
- The new 85% average floor is contained within the total settlement announcement and is therefore distributed and funded from within the total settlement;
- The Mid year 2009 population figures have been used in determining the funding settlement where appropriate, although the final settlement may use more up to date information;
- Specific Grants are contained at 2011/12 levels and do not form part of the overall distributable settlement but are “top sliced”;
- The funding for the Council Tax freeze grant is contained within the overall settlement;
- Unallocated grants remain static at 2011/12 levels and are not subsumed within the overall settlement;
- The Change Funds allocation (2 x £20 million across Scotland and equates to an estimated £1.4 million for Aberdeen) will have to be met from either existing resources or offset by alternative service options;
- The impact of teachers pensions are not known at this time. It is assumed that this cost will now be met from employee contributions;
- Capital Grants will remain constant for the Council at 2011/12 levels. Currently it is understood that there will be a reduction of £130 million across Scotland which could reduce the level of capital grant by £1 to £4 million;
- The settlement contains payments for a Scotland Minimum Wage of £7.20 and payments of £250 per person earning under £21,000 (pro-rata).

5.10 As can be seen from the above it is clear that there are a number of factors that have to be estimated at this point to determine the financial position that the Council may find itself in 2012/13, the first year of the revised draft 5 Year business plan.

5.11 It should be noted that this results in a very favourable position to recent years and is, in part, due to the work undertaken as part of the Priority Based Budgeting process last year.

### **Council Tax Assumptions**

5.12 The current level of Council Tax Band D equivalent is £1,230.39 per annum. This is based on 89,295 Band D equivalent properties.

- Council Tax non-collection rates are maintained at 2011/12 levels for the 5 Year Plan (2.4% per year);
- It is assumed that an additional 400 Band D properties will be added to the charge annually;
- Council Tax levels are frozen at 2011/12 prices until 2015/16 when it is assumed that it will increase by 2% per annum;

### **5 Year Business Plan Assumptions**

- 5.13 Generally, all contractual uplifts reflect the current understanding of the pressure being placed on contracts given the continued high level of interest rates – currently around 4.5%.
- 5.14 Staff increments have been allowed for in full and will cost the Council approximately £4 million. There may be the potential to offset this if performance measures are successfully introduced.
- 5.15 A review of income has been done to identify areas of income that have not been achieved in recent years. This will be due to the economic factors being experienced by the Council or small income streams that are no longer levied or applicable.
- 5.16 Incorporated within the base position is the net PBB Service Options for year 2 subject to any change control that has been approved. Each Service therefore has an inherent saving already incorporated within their base budget position that will have to be delivered for 2012/13 and amounts to approximately £24 million (in addition to the £15 million contained within 2011/12 and subject to change control through the Project Management Office). This delivery is **CRITICAL** to the successful implementation of the 5 year business plan.
- 5.17 There are demand pressures built into the plan based on discussions with Services. These cost pressures have been reviewed further to determine the viability of allowing such growth. Much of the growth was identified as part of the original 5 year plan and is therefore not unexpected. Appendix 2 details the level of spend by Service that is required to meet these demand/cost pressures.

### **Contingencies**

- 5.18 In preparing the budget for the next 5 years the Council has made a number of provisions for anticipated cost pressures, the final cost of which is currently estimated based on the data available at this time.
- 5.19 The contingencies relate to a corporate provision for capital financing charges totalling approximately £3 million, Joint Board requisitions of £36 million and corporate contingencies of approximately £5 million (for items such as Non Domestic Rates, detriment, employer's superannuation, Scottish Government indicative minimum pay awards, utility costs, fuel and a general corporate provision).

## **5 Year Business Plan Cost Pressures**

5.20 The main assumptions that have been built in for anticipated cost pressures are as follows:

- A full allowance has been made for staff in detriment on the basis that it may not be applied or the Council has to meet the “parachute” payments of £250 per person for staff still in detriment;
- There is no pay award for teaching and non-teaching staff (except the minimum wage payment detailed below) in 2012/13 but 1% per annum thereafter which is very optimistic given the current inflationary levels inherent within the UK economy at present;
- An allowance has been made of an increase in non-teaching employer’s superannuation of 0.2% for each of the 5 years;
- A minimum wage of £7.20 has been assumed in 2012/13 with no further increase thereafter (other than nationally assumed pay awards);
- A £250 payment is made to all staff earning below £21,000 per year from 2012/13 (but with no further increase thereafter other than for nationally assumed pay awards);
- Utility Costs are expected to be contained within existing budgeted levels with the exception of Heating Oil which is anticipated will cost the Council an extra £140,000 (assuming Hazelhead Academy is moved to CHP);
- Additional capital financing charges are built into the model based on existing capital investment. This is being reviewed currently as there is an anticipated reduction in funding for Scotland of £130 million;
- The introduction of the new Change Funds is likely to impact on the Council. Nothing is built in at present until further details and discussions can be held, but it is anticipated that this will present a cost to the Council which it is anticipated will be mitigated by existing spend levels or reduced demand levels;
- Fuel costs are currently increasing at approximately 4-5% per annum and an additional £300,000 is therefore included within 2012/13;
- It is assumed that Grampian Police requisition will be maintained at 2011/12 prices;
- It is assumed that Grampian Fire and Rescue requisition will be maintained at 2011/12 prices, but will require clarification;
- No assumption has been made regarding the Tax Incremental Funding, Business Improvement District or Business Rates Incentivisation Scheme at this point;
- There is no provision for the funding for the AWPR on the basis that additional funding is assumed through the GAE allocation (the Council will have longer roads) and as part of any PPP Unitary Charge support from the Scottish Government;

5.21 Given the above and the budget requirements by Service shown at Appendix 2 it is estimated that **the Council requires to identify £3.6 million of savings within 2012/13 subject to confirmation of the final General Revenue Grant the Council will receive from the Scottish Government.**

5.22 The movement from the approved 5 Year Business Plan can be summarised in the table below, and primarily this favourable movement is due to the reduced cost pressures built into the base budget and an anticipated improved settlement from the Scottish Government, primarily due to the introduction of the 85% floor.

*Movement Since 10 February 2011*

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Revised Deficit/(Surplus)	10,258	19,346	29,408	33,788	n/a
Increased Income Projections	(3,559)	(750)	(1,480)	(6,060)	n/a
Reduced Expected Cost Pressures	(3,099)	(10,867)	(18,906)	(19,629)	n/a
<b>Estimated Deficit/(Surplus)</b>	<b>3,600</b>	<b>7,728</b>	<b>9,022</b>	<b>8,099</b>	<b>15,714</b>

### **Priority Based Service Options**

5.23 Given the above shortfall Appendix 1 illustrates the Service Options that have been put forward by Services. These options were then prioritised by the Corporate Management Team as follows:

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
<i><u>New Service Options (Prioritised)</u></i>					
- Priority Score is 0	(2,475)	(3,646)	(4,625)	(4,967)	(5,416)
- Priority Score is 1 to 5	(649)	(934)	737	(3,195)	(94)
- Priority Score is 6 to 10	(228)	(228)	(278)	(278)	(278)
- Priority Score is 11 to 15	(380)	(1,957)	(2,102)	(2,102)	(2,102)
- Priority Score is 16 to 20	(584)	(4,949)	(7,612)	(7,592)	(7,592)
- Priority Score is 21 to 25	(7,911)	(4,008)	(14,011)	(18,416)	(18,748)

5.24 The table above shows how the Service Options are grouped within bands for each priority score, where the priority score is 0 the Corporate Management Team feel more comfortable about the option having a low service impact. As each band is moved through there are greater and greater risks associated with the service option. To provide a balanced budget all options down to Priority Score 11 to 15 would require to be taken. It is recommended that elected members undertake a similar exercise to prioritise their Service Options.

5.25 The above table can also be shown by Service, and this is provided below. Both tables should be read in conjunction with Appendix 1 which provides details around the service options which makes these totals.

	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
- Corporate Governance	(1,102)	(1,260)	(1,310)	(1,408)	(1,818)
- Social Care and Wellbeing	(196)	(196)	(196)	(196)	(1,796)
- Education, Culture & Sport	(2,692)	(10,623)	(22,542)	(31,121)	(28,351)
- Housing and Environment	(2,070)	(2,683)	(2,683)	(2,665)	(2,666)
- Enterprise, Planning & Infrastructure	(354)	(297)	(497)	(497)	(536)
- Office of Chief Executive	(43)	(43)	(43)	(43)	(43)
- Council Wide	(5,770)	(620)	(620)	(620)	(620)
<i>Total New Service Options</i>	<b>(12,227)</b>	<b>(15,722)</b>	<b>(27,891)</b>	<b>(36,550)</b>	<b>(35,830)</b>

### Working Balances

5.26 The Council aims to retain approximately 2.5% of net cost of services un-earmarked working balances. This equates to approximately £11.5 million.

5.27 As at 31 March 2011 the Council had un-earmarked reserves of £11.3 million. The current out-turn position, while currently forecasting a very small over spend, is anticipated to be within the budget that was set, such that is unlikely that any use of reserves will be required for 2011/12.

### Capital Programme

5.28 The Capital programme is currently being developed in light of the current announcement that capital funding from the Scottish Government will be reduced considerably for 2012/13 and 2013/14.

5.29 However it is important to note that as part of the 5 year business plan the Council has made a clear decision **to not undertake any additional borrowing** for future years and that the programme will be fully funded by way of capital grant and capital receipts.

5.30 The final capital programme for 2012/13 is currently estimated to be £26.5 million reducing to £17.6 million the year after. A report will be presented to Council in due course once the settlement announcement is received and these figures can be revised.

## 6. IMPACT

6.1 As a recognised top priority the Council must take the necessary measures to balance its budget. Therefore, Services are expected to work within a financial constraint as defined by their annual budgets.

- 6.2 Given the service options contained within this report will impact on a number of groups a full consultation exercise has been undertaken to engage with the citizens of Aberdeen, the business community and all other sectors with which the Council does business.
- 6.3 Equality and Human Rights Impact Assessment (EHRIA) forms have been completed as relevant to assess the impact of savings options on any of the diverse groups provided services by Aberdeen City Council. Completed EHRIA forms prepared for Committee reports are published on the Council's web site.

## **7. BACKGROUND PAPERS**

Financial ledger data extracted for the period, and service committee reports on financial monitoring;  
Priority Based Budgeting Report;  
Local Government Finance Circular No. 2/2011;  
Scottish Government 2011 Spending Review.

## **8. REPORT AUTHOR DETAILS**

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**Priority Based Budgeting: Final Draft Report (version 1.1)**