

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	9 February 2012
DIRECTOR	Stewart Carruth
TITLE OF REPORT	General Fund Revenue Budget 2011/12 and indicative 2012/13 to 2015/16 Budget
REPORT NUMBER:	CG12/015

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 2012/13 as well as provisional Council Tax levels for the financial years 2013/14 and 2014/15. In turn, this will allow a capital programme for 2012/13 to be set as well as a provisional programme for future years.

2. RECOMMENDATION(S)

- 2.1 It is recommended that the Council:

- a) Approve the budget as attached at Appendix 1 of this report;
- b) Agree to the budget amendments set out in Appendix 2 of this report;
- c) Note the position with reserves and provisions in Appendix 3 of this report;
- d) Approve the Council's 5 Year Business Plan contained within Appendix 4 of this report;
- e) Note the Priority Based Budget savings approved at Council on 14 December 2011 attached as Appendix 5 of this report (summarised in Appendix 6);
- f) To agree the recommendation by the Head of Finance to retain working balances of 2.5% or approximately £11 million;
- g) Freeze Council Tax levels for the financial year 2012/13 at 2011/12 levels; and
- h) Agree to the terms set out in the letter attached as Appendix 7 from the Cabinet Secretary for Finance, Employment and Sustainable Growth.

3. FINANCIAL IMPLICATIONS

- 3.1 The Council in anticipation of setting its budget for 2012/13 continued to develop the Priority Based Budgeting exercise undertaken for the 2011/12 budget process that reviewed all costs currently being incurred across Council services over a 5 year period.
- 3.2 This review led to a second tranche of Service Options being identified by officers for consideration by elected members at the Council meeting on 14 December 2011. The Council accepted a number of these options at this meeting and these are contained within Appendix 5 of this report.
- 3.3 In setting the budget for 2012/13 the Council needs to recognise the need to have sufficient working balances to meet any unforeseen expenses during the financial year.
- 3.4 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 £11.5 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 2016/17, or approximately £19 million.
- 3.5 Based on the current reported out-turn position the Council is currently forecasting to have £13.3 million of un-earmarked reserves by 31 March 2012 which is in line with this policy to move to having a 4% balance on working balances.
- 3.6 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 2011/12 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 2012/13 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 The Scottish Government has however recognized the level of funding provided to local authorities is such that no Council should receive less than 85% of the Scottish average.
- 4.4 This average has been calculated by restricting local authorities who receive more than 100% of the Scottish average to 115% for the purposes of the calculating the 85% Floor adjustment.

- 4.5 As such, this has resulted in the Council receiving an additional £3 million of funding for 2012/13. The calculation is done out with the overall envelope settlement such that this funding level varies considerably each year.
- 4.6 As a result of this Aberdeen City Council has received an increase in the level of grant funding it receives in the financial year 2011/12 (excluding specific and ring fenced grants). The Scottish Government has also provided indicative figures for a further two financial years.
- 4.7 Based on the current settlement figures from the Scottish Government the Council has been notified that it will receive £342.8 million in 2012/13, an increase in funding of £5.6 million compared to 2011/12, a further increase in 2013/14 of £1.2 million followed by an additional £2.5 million the year there after. This is reflected in the 5 Year Business Plan attached as Appendix 4 to this report.

5. BACKGROUND/MAIN ISSUES

- 5.1 The current position for 2012/13 is summarised in the following table and is broken down further in Appendix 1 of this report and shows that following the Council meeting in December the Council has a balanced budget for the financial year 2012/13:

<u>Note</u>	<u>Funding</u>	<u>£</u> <u>million</u>	<u>£</u> <u>million</u>
1	Central Government Grants		342.821
2	Council Tax (including Arrears)		107.711
			<u>450.532</u>
	Add:		
	Trading Services/Other Grants		9.091
	Total Funding		459.419
	<u>Projected Expenditure</u>		
	Current Estimated Spend		462.017
	Deduct: Savings Approved		
3	14/12/10		<u>(2.598)</u>
	Total Projected Expenditure		459.419
	Net Spend		0

Note 1 – This is the total funding notified to the Council per the Finance Circular 12/2011.

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– This is the service options that were approved by Council on 14 December 2011.

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 the letter from the Cabinet Secretary for Finance, Employment and Sustainable Growth:

- To remain committed to the delivery of the Government's programme as set out in Renewing Scotland: the Government's Programme for Scotland 2011-12 and the Government Economic Strategy;
- Maintain a council tax freeze in each of the three years of the Spending Review.
- Individual local authorities to pass on their full share of funding to Police Boards in line with the existing agreed level for 2011-12 as a contribution to maintaining the number of police officers throughout the Spending Review Period 2012-15.
- Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

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

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. Pay awards are built in for future years at 1% per annum. There is an increase in pay reflecting the minimum wage and a payment of £250 for all staff earning less than £21,000 in line with Scottish Government's settlement.

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. An allowance has also been made for detriment payments for staff that will still find themselves in this position following the implementation of Equal Pay.

5.7 A number of provisions have also been made within the revenue budget to cover known cost increases for Non Domestic Rates, utilities and fuel costs. These have been allocated to Services and are included within the movements contained within Appendix 2 of this report. Other general provisions of £2 million have also been provided for to meet unforeseen costs during the year.

Funding

- 5.8 The 2012/13 Non-Domestic Rate poundage rate has been set at 45.0 pence (up from 42.6 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 For the financial year 2012/13 the Scottish Government has introduced the Business Rates Incentivisation Scheme. The aim of the scheme is two fold; to incentivise councils to maximize their existing business rate income; and to grow their tax base, allowing them to retain a proportion of business rates income over and above the target level of what they would otherwise be expected to raise.
- 5.10 Each local authority that exceeds its individual non domestic rate income target will retain a half share of the additional rates income generated. Any local authority that does not reach their target will continue to be compensated by the Scottish Government (as they are now) up to the level of their non domestic rates distributable amount through increased general revenue grant.
- 5.11 The Council's target for 2012/13 is £164.1 million. It has been assumed that this target will be achieved and if not the compensation mechanism described above will be implemented. This will be monitored closely during the year to determine how this new funding mechanism impacts the Council.
- 5.12 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. It is estimated that this will equate to approximately £1 million for Aberdeen City Council and this is included within the figures at Appendix 1.

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 as approved by the Finance and Resources Committee. Within Miscellaneous Services there are a number of movements to reflect increased capital financing charges, capital from current revenue, reduced costs associated with the Council's pursuit of Alternative Delivery Models (as these costs were budgeted to last for one financial year) and increased supplementary pension payments. An allowance of £1.5 million has also been made to meet the commitments required for the 2 Change Funds announced by the Scottish Government.

5 Year Costed Business Plan

- 5.14 Appendix 1 illustrates the Council's 5 year position the data from which was derived from continuation of the successful Priority Based Budgeting exercise it implemented in 2011. 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 has introduced a Business Rates Incentivisation scheme as described earlier. It is assumed that the Council will meet these targets rather than exceed them at this point in time to allow actual data to be collated and reviewed for future years.
- 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 in line with the process implemented for 2011/12.
- 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 Appendix 4 reflects the revised Business Plan for elected members to approve.
- 5.18 The business plan pulls together each service strategy for the medium term together with the current financial projections for the period. It demonstrates the direction of travel the Council intends to take over the next 5 year years underpinned with a sound financial strategy to improve the quality of lives for the City's residents.
- 5.19 On a positive note the business plan demonstrates that over the 5 year period, depending on future decisions taken around service options, the Council's 5 year position shows a small deficit for years 2 to 4 demonstrating the success of the Priority Based Budgeting approach that the Council has adopted.
- 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 3 to this report shows the position on working balances as at 1 April 2011 after taking account of the known commitments, as per the period 8 monitoring position for 2011/12. The period 8 monitoring illustrates that the Council is currently projecting an underspend of £1.994 million leaving working balances at 31 March 2011 of £13.3 million.
- 5.23 However, the Council also has a number of provisions including a provision for LATS fees. It is anticipated that this legislation will be repealed this year and therefore the provision may not be required. It remains within the budget at the present time until the legislation is replaced.

Savings

- 5.24 Included within Appendix 4 of this report is a full breakdown of the service options from services. This includes a minor amendment to the option for taxi marshals to reflect the now known contract cost. Appendix 4 shows the options that have been approved. Appendix 7 summarises this information for ease of reference.

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 12/2011
Priority Based Budget Report v1.4b
Period 8 Out-turn position
5 Year Business Plan

8. REPORT AUTHOR DETAILS

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