ABERDEEN CITY COUNCIL

COMMITTEE	Finance & Resources
DATE	6 December 2012
DIRECTOR	Stewart Carruth (Director of Corporate Governance)
TITLE OF REPORT	General Fund Revenue and Capital Budget 2013/14 and Indicative 5 Year Budgets
REPORT NUMBER:	CG/12/1021

1. PURPOSE OF REPORT

1.1 The purpose of this report is to provide the Committee with details of the 2013/14 General Fund Revenue budget along with indicative 5 Year budgets for both the General Fund and an indicative investment level of £200 million for the Non Housing Capital Programme during the same time frame.

1.2 These budgets are based on the current settlement information from the Scottish Government and will therefore be subject to change once an updated settlement position is announced.

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:

a) Notes the attached 2013/14 draft budget proposal which will be presented to the 7 February 2013 Budget Setting Council meeting;
b) Note the draft 5 Year Business Plan position in relation to the Council's budget subject to the final grant settlement award letter; and
d) The Committee notes that the proposed budget **DOES NOT** include any additional budget savings as the 5 Year business plan for 2013/14 demonstrates that none are required;
e) Notes the establishment of a Risk Fund to mitigate against any in year cost pressures subject to final Council approval in February 2013;
f) Notes that the Head of Finance continues to retain working balances, as a minimum, of 2.5%;
g) Notes that a capital investment programme of £200 million over the 5 year business plan life cycle will be reported to the Council Budget Setting meeting on 7 February 2013.

3. FINANCIAL IMPLICATIONS

3.1 The Council in anticipation of setting its budget for 2011/12 undertook an extensive Priority Based Budgeting (PBB) exercise that reviewed all costs currently being incurred across Council services over a 5 Year period.

3.2 This led to the Council producing a 5 Year Business Plan outlining the financial position over this period and this has been updated to reflect a more detailed understanding of the cost pressures, financial out-turn and Scottish Government settlement figures.

3.3 The process for determining the 2013/14 budget involved undertaking a risk based approach to further enhance and develop the PBB process through the establishment of a Risk Fund.

3.4 This involved identifying cost pressures for future years and understanding the risk associated with these, such that in being prudent the cost pressure could be set against the Risk Fund which Services will work on mitigating against in year.

3.5 The basis for this is predicated on the Council anticipating an under spend against budget for 2012/13 of approximately £5 million. Given this will be the second year this level of underspend is likely to occur future year cost pressures could be met from this underspend. However, a Risk Fund has been created to ensure if this is not the case then funding is in place to meet these pressures.

3.6 In setting the budget for 2013/14 the Council needs to recognise that sufficient working balances are set aside to meet any future unforeseen expenses over the life of the 5 Year Business Plan. This is of high importance given:

- The continued economic outlook for the United Kingdom and further afield;
- The continued austerity measures being implemented by the UK government;
- Welfare reform and the potential impact this will have on the Council's customers;
- The level of inflation that continues to be inherent within the current economic climate;
- Potential wage pressures following a 2 year wage freeze within the Public Sector;
- Other cost pressures arising directly from rising prices or additional legislative burdens placed on the Council; and
- The Council waits to see its next 3 year settlement figures from the Scottish Government covering the period 2015/16 to 2017/18.

3.7 As reported and agreed at Committee on 4 October 2012 the Council has continued to set aside 2.5% of net revenue budget expenditure as uncommitted reserves on the General Fund, with the express intention of ensuring that it can deal with unexpected and unplanned expenditure should the need arise.

3.8 In line with this approved strategy officers continue to monitor and examine the opportunities for increasing the level of working balances. With current forecasts showing that the level of underspend is likely to be in the order of £5-£6 million as part of the budget strategy a Risk Fund will be created to meet any potential cost pressures in year that cannot be met from existing budgets.

3.9 As part of the Council's year end process the most optimum position will be identified and referred to Committee for approval in due course, along with continued updates during the remainder of this financial year on the potential to further increase the level of working balances.

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 continued major impact on the Council's position for 2013/14 and future year budgets is the current prolonged 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 issued the Finance Circular for 2013/14 and is in line with previous Government announcements. The major change to the funding is the removal of funding of Police and Fire and this also is in line with the Council's current forecasts.

4.4 One of the major impacts on the level of funding the Council will receive is the establishment of the single Police and Fire Boards in Scotland. As such, the Council will receive approximately £34 million less funding. However, the converse position of this is that the Council will no longer be responsible for funding these organisations and as such the reduction is expected to be cost neutral.

4.5 In setting the General Fund budget it is assumed that a funding envelope of approximately £200 million will be provided for capital investment over the life of the 5 Year Business Plan. The Council has a process for identifying and ranking projects, or bids, and this is currently being worked on by officers and will be reported to Committee in February 2013.

5. REPORT

5.1 The budget proposals being recommended by officers is summarised in the table below and broken down further in Appendix 1 of this report:

Note	Funding	£ million
1	General Revenue Grant	132.879
1	Non Domestic Rates	177.084
	Teacher Induction Grant	0.991
2	Council Tax (including Arrears)	110.388
		421.342
	Add:	
	Trading Services/Other Grants	11.487
	Total Funding	**432.829**
	Projected Expenditure	
	Current Estimated Spend	438.370
3	Deduct: Introduction of Risk Fund Approach	(5.541)
	Total Projected Expenditure	**432.829**
	Net Spend	**0**

Note 1 – This is the total funding notified to the Council per the current Finance Circulars available based on Non Domestic Rates and General Revenue Grant (amended to reflect the deduction in Police and Fire Grant).

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 2013/14 can be anticipated.

Note 3– This is the introduction of a Risk Fund based approach to dealing with in-year cost pressures that, given the inherent under spend being reported, will be absorbed from within existing budgets during the year if they should materialise.

Financial Settlement Position

5.2 It is worthwhile noting that as part of the overall settlement agreement provided by the Scottish Government the Council is expecting that it has to ensure that it has adequate budgetary provision to:

- Maintain a council tax freeze for the financial year 2013/14; and
- Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

5.3 The Council has received the Finance Circular for 2013/14 (Local Government Finance Circular no. 5/2012) and this is in line with previously reported expectations. The figures within this report reflect the funding position per the issued circular.

Council Tax Assumptions

5.4 The current level of Council Tax Band D equivalent is £1,230.39 per annum. This is based on 91,524 Band D equivalent properties. It should also be noted that this assumes:

- Council tax non-collection rates are maintained at 2012/13 level for the 5 Year Business Plan (which will be monitored closely given the impact of Welfare Reform);
- It is assumed that an additional 400 Band D properties will be added to the charge annually;
- Council tax levels are frozen at 2012/13 prices until 2015/16 when it is assumed that it will increase by 2% per annum;
- Welfare Reform impact is provided for centrally and will be reviewed as more detail becomes available;
- The level of Band D properties has been increasing in recent years and the budget report in February 2013 will reflect the December property data.

Business Rates Incentivisation Scheme

5.5 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.

5.6 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.

5.7 The Council’s target for 2012/13 is £164.1 million. At present there is no indication what the target level is for 2013/14 as this detail will be provided within the awaited settlement letter.

5.8 The Scottish Government within the issued Finance circular has stated that:

"It should be noted that the 2012-13 BRIS targets are currently under review following receipt of the 2012-13 business rates mid-year returns. It is clear that there has been a delay in the settling of appeal cases caused by the need to await the outcome of the Mercat/Overgate Shopping Centre appeal cases. This appears to have had the effect of artificially increasing the income councils are collecting in 2012-13 (thereby creating an unjustified windfall this year). If this indeed turns out to be the case and there has been a large number of appeals that have been delayed and will now be pushed into 2013-14 and future years then this will have to be dealt with as a "significant event" and the BRIS targets reviewed. Once we have the full analysis and the likely impact on non domestic rate income we will discuss with COSLA and agree revised 2012-13 targets. Clearly this will also have an impact on the 2013-14 targets which will be issued in due course"

Further detail will be provided to Committee when it becomes available.

5 Year Business Plan Investment

5.9 As part of the overall direction of travel in delivering the 5 Year Business Plan the Council undertook wide reviews of its areas of spend and re-aligned this to its Corporate Priorities.

5.10 As part of the 5 year plan the following net investment has been made within the 2013/14 budget within each of the Service Directorates and more detail is provided within Appendix 2 of this report.

Net Movement by Service:

	2012/13 to 2013/14 £'000	2013/14 to 2014/15 £'000	2014/15 to 2015/16 £'000	2015/16 to 2016/17 £'000	2016/17 to 2017/18 £'000
Current Movement					
Corporate Governance	(526)	(225)	(212)	(185)	226
Social Care and Wellbeing	4,850	2,611	1,716	3,881	3,881
Education, Culture and Sport	2,677	2,257	2,214	4,524	1,422
Housing and Environment	1,789	(961)	(2,502)	3,137	342
Enterprise, Planning and Infrastructure	(1,872)	610	928	1,917	15
	6,918	**4,292**	**2,144**	**13,274**	**5,886**

5.11 What the above table demonstrates is that significant investment is being made within Services. For the Corporate Governance service the net reduction in service is primarily the delivery of previously approved Service efficiency savings and is on track to be delivered.

5.12 For Enterprise, Planning and Infrastructure the reduction in the annual movement is again primarily due to the year 3 Priority Based Budget Service Options being delivered which involves the more efficient use of fleet vehicles and entering into partnering relationships to reduce the overall cost base for the Service and this is on track to be delivered.

5.13 If the overall gross investment is broken down by Service (that is previous Council PBB decisions are excluded the real investment in Services can be seen in the table below:

Annual Gross Investment (excluding increments and pay awards):

	2012/13 to 2013/14 £'000
Current Movement	
Corporate Governance	644
Social Care and Wellbeing	4,769
Education, Culture and Sport	3,379
Housing and Environment	3,253
Enterprise, Planning and Infrastructure	1,968
	14,013

5.14 The table above, which Appendix 2 to this report provides further detail, demonstrates the Council's commitment to delivering front line services in line with the vision set out in Aberdeen – The Smarter City.

5.15 It further demonstrates the Council to be in a strong financial position to deliver this level of investment despite the current austerity measures that are in place by various governments within Europe.

5.16 Also contained within the overall 2013/14 budget are allowances for the following assumptions:

- A 1% annual pay award for all categories of staff (teaching and non-teaching staff, Chief Officials and elected members);
- An increase in the level of utility bills for 2013/14 to reflect increasing prices;
- An allowance for the minimum wage to be moved to £7.45 per hour during the course of the year;
- A capital investment programme of £210 million over the next 5 years, the detail of which will be reported back to Committee in February;
- An assumption that approximately a third of all staff who are not in the pension scheme will join as part of the requirement to auto-enrol all staff into a pension scheme;

- An allowance for Welfare Reform – primarily targeted at Council tax and the continued uncertainty surrounding the introduction during 2013/14;
- Increased investment to reflect the increasing demographic factors impacting on the delivery of Social Care and Wellbeing Services;
- Increased investment in pupil numbers to reflect the growing level of school children;
- An additional £1 million for devolved school budgets to target the improvement of school attainment;
- Increased investment in waste to ensure the delivery of the Council's waste strategy; and
- An uplift of 7.7% for Non Domestic rates (for which we await final notification from the Scottish Government on).

Capital Programme

5.17 The capital programme is currently being developed pending the final settlement letter for 2013/14. This also provides officers the opportunity to complete a number of work streams which include:

- Completion of the scoring mechanism to allow projects to be ranked against one another; and
- A proposed capital programme to be fully developed that covers the 5 year business plan.

5.18 It is the intention of officers to maintain the current financial strategy which will see the total level of borrowing reduce over the 5 year period covered by the business plan.

5.19 Given this strategy an assessment has been made on the likely level of capital receipts that may materialise over the 5 year period, along with the level of capital grant and other grants, such as lottery funding.

5.20 What this demonstrates is that over the 5 year period a programme of over £200 million can be delivered and still have the total debt of the Council reduce over the period.

5.21 Officers will bring a 5 year Non Housing Capital Programme to the February Committee for approval. In approving the General Fund budget, approval is given in principle for a £200 million programme as the capital financing charges, charged to the revenue account, are allowed for in the 5 Year Business Plan.

6. SERVICE AND COMMUNITY IMPACT

6.1 As a recognized 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 As part of the overall budget process for 2013/14 the Education, Culture and Sport Service has identified the opportunity to vire a number of budgets to align spend with budgets. The details of this are contained within Appendix 3.

7. BACKGROUND PAPERS

Scottish Government Finance Circulars
Priority Based Budget Report
2012/13 Monitoring Reports
5 Year Business Plan

8. REPORT AUTHOR DETAILS

Steven Whyte
Chief Accountant
swhyte@aberdeencity.gov.uk
01224 523566