

ABERDEEN CITY COUNCIL

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| COMMITTEE | Council |
| DATE | 14 February 2013 |
| DIRECTOR | Stewart Carruth (Director of Corporate Governance) |
| TITLE OF REPORT | Five-Year Business Plan 2013/14 to 2017/18, Corporate Workforce Plan, Annual Report, General Fund Revenue and Capital Budget 2013/14 and Indicative Five-Year Budgets |
| REPORT NUMBER: | CG/13/ |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Council with details of the 2013/14 general fund revenue budget along with indicative five-year budgets for both the general fund and a gross indicative investment level of £302 million for the non-housing capital programme during the same time frame.
- 1.2 The report also provides a full suite of documents that for the first time brings together the budget, five-year business plan, workforce plan and the annual report which therefore provides elected members with a complete holistic view of the council's position for the last 12 months and also the future five years with a clear plan on the council's major cost base – its workforce.

2. RECOMMENDATION(S)

- 2.1 It is recommended that the committee:
 - a) Approves the attached revenue budget for 2012/13 as attached at appendix 1 of this report, along with an indicative five-year budget;
 - b) Approves the attached five-year non-housing capital programme as attached at appendix 2;
 - c) Approves the prudential indicators as attached at appendix 3 to this report;
 - d) Approves the council's five-year business plan as attached as appendix 4;
 - e) Approves the council's workforce plan attached as appendix 5;
 - f) Approves the council's annual report attached as appendix 6;
 - g) Agrees to freeze the level of council tax for 2013/14 at the same level as 2012/13.

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 being incurred across council services over a five-year period.
- 3.2 This led to the council producing a five-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. This is attached as appendix 4 to this report.
- 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 that 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 five 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 two-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 three-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. A key element of this strategy is to set aside further funds to meet the increased impact of welfare reform and to further reduce the council's overall level of borrowing over the next five-year period.

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 downturn 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 it 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 it will be cost neutral.
- 4.5 In setting the general fund budget it is assumed that a gross funding envelope of approximately £300 million will be provided for capital investment over the life of the five-year business plan. The council has a process for identifying and ranking projects, or bids, and the outcome of this is the production of the five-year non-housing capital programme as shown in appendix 2 of this report.

4.6 The council is required to comply with the requirements of the Prudential Code. This includes the setting of a number of prudential indicators and these are set out for approval in appendix 3 to this report.

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:

| <u>Note</u> | <u>Funding</u> | <u>£</u> <u>million</u> |
|-------------|-------------------------------------|----------------------------|
| 1 | General Revenue Grant | 133.672 |
| 1 | Non Domestic Rates | 177.084 |
| | Teacher Induction Grant | 0.991 |
| 2 | Council Tax (including Arrears) | <u>110.388</u> |
| | | 422.135 |
| | Add: | |
| | Trading Services/Other Grants | <u>11.870</u> |
| | Total Funding | 434.005 |
| | <u>Projected Expenditure</u> | |
| | Current Estimated Spend | 439.546 |
| | Deduct: Introduction of Risk Fund | |
| 3 | Approach | <u>(5.541)</u> |
| | Total Projected Expenditure | 434.005 |
| | 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 of police and fire grant and adjustment for council tax benefit).

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 expected 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 five-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;

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 twofold; to incentivise councils to maximise 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 original 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 is not provided in the 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 as this position remains unchanged since reported in December.

Non Housing Capital Programme

5.9 As indicated earlier in the report, in setting the general fund budget resources have been allocated to fund a non-housing capital programme amounting to a gross budget of £302.6 million as detailed in Appendix 2.

Five-Year Business Plan

5.10 The full five-year business plan is attached as appendix 4 of this report. The plan has been re-drafted to reflect new priorities and provides a degree of continuity as it is a rolling five-year plan for the period 2013/14 to 2017/18.

5.11 Whilst the plan does provide continuity it has a different focus which is:

- A city-wide vision that has been developed by partners and is distinctive;
- A council vision focusing on Aberdeen – the Smarter City;
- Underpinned by six priorities

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| Smarter Governance – Participation | Acknowledging the role that citizens can play in the evolution of the city. |
| Smarter Living – Quality of Life | Challenging inequality and positively promoting wellbeing building on cultural and physical activity. |
| Smarter People – Social and Human Capital | Focusing on education including lifelong learning and nurturing a city of learning with a city-wide workforce which can grow and diversify the economy. |
| Smarter Environment – Natural Resources | Sustaining the environment by maximising the use of low-carbon technology in our infrastructure and housing. Managing our waste and promoting our streetscape and green space. |
| Smarter Economy – Competitiveness | Recognising the importance of sustaining a competitive economy with clear financial parameters which attracts people to invest, live, work and export from. |
| Smarter Mobility – Transport and ICT | Promoting the transport links to and from the city which are sustainable. Maximising digital connectivity for the benefit of all people and the development of business in the city. |

- 5.12 The plan also provides an understanding of the future environment in which the council is likely to operate because of social and demographic changes. This includes an aging population with people aged over 65 projected to increase by 10% from 2012 to 2017. Over the same period the 0-15 age group is also anticipated to increase by 10% putting significant pressure on services.
- 5.13 It also acknowledges our partners and customers with and to whom we deliver millions of transactions each year. It also provides a directorate by directorate overview shaped by an operating model which is a mixed model to acknowledge that there are different ways to deliver services providing the opportunity to be innovative in how services are delivered and/or funding secured.
- 5.14 The operating model is underpinned by the financial plan which is projected over the five-year period. Whilst there is a reduction in general revenue grant in real terms over the period there is a very small increase for non-domestic rates. The 2013/14 budget and future projections as outlined in the report provides the detail behind the financial plan.
- 5.15 This provides a solid foundation enabling the city to invest just over £302 million gross over the next five years in schools, infrastructure, cultural buildings and broadband all of which underpin the smarter city priorities.

5.16 Examples of some of the key investments underpinning the smarter priorities are:

- Smarter Living - £32 million City of Culture bid (Art Gallery Re-development and Museums Collection Centre);
- Smarter People - £58 million in schools, £10 million in Housing and £21 million in Social Care;
- Smarter Environment - £3 million in the Duthie Park, £2 million in Hydrogen Buses and £30 million on waste and energy;
- Smarter Economy - £42 million in infrastructure projects;
- Smarter mobility - £2 million on broadband and £55 million on transportation.

5.17 The plan provides a set of outcomes against which the council will be measured. In conclusion, the five-year plan sets out a focused agenda for the council, recognising Aberdeen as a smart achieving city where inequalities still remain and need to be challenged.

Workforce Plan

5.18 The Workforce Plan is strategically aligned to the Business Plan and the budget. The people intensive nature of the Council's services means that business planning requires to take account of key workforce matters and the fact that approximately 60% of the net revenue budget is directed towards staffing related matters provides an inextricable linkage between workforce planning and budgeting.

5.19 The plan sets out the workforce implications of the Council's transformational process; takes stock of the existing workforce in relation to a number of key considerations and details the workforce strategy which should ensure that the Council's workforce retains the capability of delivering on key organisational objectives.

5.20 Whilst workforce planning has been undertaken in the Council previously, this is the first time in the history of the organisation that this process has been informed by the Business Planning and budgetary processes. This joined-up approach should ensure that workforce plans are both affordable and consistent with key business objectives.

5.21 It is now an accepted fact that those organisations most successful in the consistent attainment of organisational objectives are those which successfully engage with their workforces. Employee engagement is, therefore, a significant issue for the Council and the plan sets out how this is currently being dealt with and what future actions will consist of.

5.22 Other key workforce issues covered in the plan include:

- Employee resourcing
- Skills development
- Health, safety and wellbeing
- Performance management, and
- Pay and reward

Annual Report

5.23 During 2012 the draft five-year business plan has underpinned the council's vision of Aberdeen - The Smarter City. This annual report, attached as appendix 6 of this report, sets out case studies, examples of best practice and future planning achieved by the council in 2012/13 as an illustration of how the services we deliver support the vision for an ambitious, achieving, smart city.

5.24 The council is committed to providing a high quality service in everything we do and has created this annual report as a benchmark for future years. The annual report also presents and compares our achievements, areas of improvement, areas of growth with organisations across the UK.

5.25 The annual report is a public performance report setting out our activity, service delivery and achievements over the previous twelve months. We will continue to build upon these foundations as we seek to improve in everything we do.

5.26 In future years, the annual report will closely follow the council's progress against the five-year business plan, measuring performance each year.

6. SERVICE AND COMMUNITY 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.

7. BACKGROUND PAPERS

Scottish Government Finance Circulars
Priority Based Budget Report
2012/13 Monitoring Reports
Five-Year Business Plan
Corporate Workforce Plan
Annual Report

8. REPORT AUTHOR DETAILS

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