

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy & Resources
DATE	5 December 2013
DIRECTOR	Angela Scott
TITLE OF REPORT	General Fund Revenue and Capital Budget 2014/15 and Indicative 5 Year Budgets
REPORT NUMBER:	CG/13/116

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with details of the 2014/15 General Fund Revenue budget along with indicative 5 Year budgets for the General Fund and an indicative investment level of £300 million for the Non Housing Capital Programme during the same time frame, incorporating the recently approved Strategic Infrastructure Plan.
- 1.2 These budgets are based on the current settlement information from the Scottish Government (Finance Circular 1/2013) and are therefore subject to change once an updated settlement position is announced.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
- a) Notes the attached 2014/15 draft budget proposal which will be presented to the 6 February 2014 Budget Setting Council meeting;
 - b) Notes the draft 5 Year Business Plan position in relation to the Council's General Fund Revenue budget, subject to the final grant settlement award letter;
 - c) Notes the continuation of a Risk Fund to mitigate against any in year cost pressures subject to final Council approval in February 2014;
 - d) Agrees that the Council continues to retain uncommitted revenue reserves in accordance with the Reserves Strategy, which presently shows a requirement for £11.3m to be held; and
 - e) Notes that a capital investment programme of £300 million over the 5 year Business Plan life cycle is in place and the recently approved Strategic Infrastructure Plan is incorporated there-in.

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, based on Finance Circular 1/2013. The final settlement letter is expected in the week commencing 9th December 2013.
- 3.3 The process for determining the 2013/14 budget involved undertaking a risk based approach to enhance and develop the PBB process through the establishment of a risk fund. For 2014/15, the PBB process was further enhanced through the use of a risk based appraisal system.
- 3.4 This involved identifying cost pressures for future years and understanding the risk associated with these. They were then subject to a robust challenge process in order to remove elements of priced-in risk. The risk fund which was created in 2013/14 will continue, such that in being prudent, identified cost pressures could be set against the Risk Fund which Services will work on mitigating against in-year.
- 3.5 The process for determining the 2014/15 budget also involved a commitment to undertake a review of the Council's procurement arrangements. Strategic Procurement will be a key enabler in the continued challenge to control and where appropriate reduce the Council's cost base. The Procurement Team are actively working in conjunction with all Service areas to identify further efficiencies through new contract design, contract management and collaboration.
- 3.6 A further stream within the budget process is that of workforce planning. The workforce plan is strategically aligned to the Five Year Business Plan and the Priority Based Budget and will be provided to Council as part of the budget report in February 2014, in order to provide a holistic view of the Council's position, along with the Council's annual performance report.

3.7 In setting the budget for 2014/15 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, which over 5 years is likely to increase;
- Welfare reform and the impact of the universal credit in 2014/15;
- The level of inflation that continues to be inherent within the current economic climate;
- The agreement of a 1% pay award for 2013/14 and 2014/15;
- The impact of rising energy prices;
- 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.

3.8 As reported and agreed at Finance & Resources Committee on 4 October 2012 the Council has continued to set aside £11.3million as uncommitted General Fund reserves, with the express intention of ensuring that it can deal with unexpected and unplanned expenditure should the need arise.

3.9 In line with this approved strategy officers continue to monitor and examine the opportunities for increasing the level of working balances.

3.10 As part of the Council's year end process the most optimum position will be identified. The Finance, Policy & Resources Committee approved the use of any surplus – after a £1million commitment for the Music Hall redevelopment – would be utilised to support the funding of the Capital investment requirement of the Council.

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 2014/15 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 In setting the General Fund budget it is assumed that a funding envelope of approximately £300 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 2014. This will include projects within the Strategic Infrastructure Plan as appropriate.

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	131.370
1	Non Domestic Rates	193.738
	Teacher Induction Grant	1.069
2	Council Tax (including Arrears)	<u>100.273</u>
		426.450
	Add:	
	Trading Services/Other Grants	<u>13.940</u>
	Total Funding	440.390
	<u>Projected Expenditure</u>	
	Current Estimated Spend	440.390
	Total Projected Expenditure	<u>440.390</u>
	Net Spend	<u>0</u>
3	Risk Fund	5,514

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.

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 2014/15 can be anticipated.

Note 3 – The risk fund was established in 2013/14 and will continue to be earmarked for this purpose in 2014/15.

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 2014/15; and
 - Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

Note: The potential loss of revenue grant for not maintaining the council tax freeze would be £3.175m, and for not maintaining the pupil number ratio it would be approximately £1.8m

- 5.3 The Council has received the Finance Circular for 2014/15 (Local Government Finance Circular no. 1/2013) 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. It should also be noted that this assumes:
- Council tax non-collection rates are maintained at 2013/14 levels 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;
 - Provision for Welfare Reform impact remain included in base budget;
 - The level of Band D equivalent properties has been increasing in recent years and the assumed level of Council Tax reflects this.

5 Year Business Plan Investment

- 5.5 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.
- 5.6 The table below shows the net movement within each of the Service Directorates, as contained in the 5 year plan, and more information on the investment contained therein is provided within Appendix 2 of this report.

Net Movement by Service:

	2013/14 to 2014/15	2014/15 to 2015/16	2015/16 to 2016/17	2016/17 to 2017/18	2017/18 to 2018/19
Service	£'000	£'000	£'000	£'000	£'000
Corporate Governance	391	(70)	287	273	238
Social Care and Wellbeing	1,474	843	2,808	2,608	2,408
Education, Culture and Sport	4,699	2,844	5,869	2,035	2,393
Housing and Environment	(1,033)	(1,718)	2,923	268	272
Enterprise, Planning and Infrastructure	(1,222)	794	1,696	1,411	137
Office of Chief Executive	66	(33)	65	301	(269)
Council Expenses	0	0	0	0	0
Miscellaneous Services	1,172	6,484	4,655	8,185	4,765
Joint Boards	0	0	0	0	0
Total	5,547	9,144	18,303	15,081	9,944

5.7 The net movement above includes previously approved PBB service options, growth items (see Appendix 2) and corporate adjustments such as realignment of rates budgets.

5.8 For Enterprise, Planning and Infrastructure and Housing & Environment, the reason for a reduction in annual movement between 2013/14 through to 2015/16 is again primarily due to the continued delivery of Priority Based Budget service options, as previously included in the Council's 5 year business plan.

5.9 The miscellaneous service budget contains provision for the financial impact of assumptions made around energy, pay awards and capital financing costs.

5.10 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:

	2013/14
	to
	2014/15
	£'000
<u>Current Movement</u>	
Corporate Governance	480
Social Care and Wellbeing	3,883
Education, Culture and Sport	4,829
Housing and Environment	1,831
Enterprise, Planning and Infrastructure	475
Office of the Chief Executive	66
Miscellaneous Services	2,590
	<u>14,154</u>

- 5.11 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.
- 5.12 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.
- 5.13 Also contained within the overall five year budget are allowances for the following assumptions:
- A 1% annual pay award for all categories of staff for each of the 5 years (2% in 2017/18);
 - An increase in the level of utility bills for the five year period to reflect increasing prices;
 - A capital investment programme, incorporating the Strategic Infrastructure Plan of £300 million over the next 5 years, the detail of which will be reported back to Committee in February 2014;
 - The continuation of auto-enrolment, reflecting the uptake of approximately two-thirds of staff who had previously opted out;
 - An allowance for Welfare Reform – primarily targeted at Council tax and the continued uncertainty surrounding the introduction of the Universal Credit;
 - Increased investment to reflect the increasing demographic factors impacting on the delivery of Social Care and Wellbeing Services;
 - Increased investment in primary teachers to reflect the growing level of school children;
 - An additional £0.7 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

- 5.14 The capital programme is currently being developed pending the final settlement letter for 2014/15. 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.
- 5.15 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.
- 5.16 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.
- 5.17 What this demonstrates is that over the 5 year period a programme of around £300 million can be delivered and still have the total debt of the Council reduce over the period. The potential impact of Aberdeen Western Peripheral Route funding are still being fully investigated, however it should be noted that Scottish Ministers have given consent to borrow if required.
- 5.18 Officers will bring a 5 year Non Housing Capital Programme to the February 2014 Committee for approval. In noting the General Fund budget, it assumes, in principle, a £300 million programme as the capital financing charges, charged to the revenue account, are allowed for in the 5 Year Business Plan.

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.

7. BACKGROUND PAPERS

Scottish Government Finance Circulars
Priority Based Budget Report
2013/14 Monitoring Reports
5 Year Business Plan

8. REPORT AUTHOR DETAILS

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Appendix 1						
General Fund Revenue Budget 5 Year Position						
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Service	£'000	£'000	£'000	£'000	£'000	£'000
Corporate Governance	28,021	28,412	28,342	28,630	28,903	29,141
Social Care and Wellbeing	121,514	122,987	123,830	126,638	129,246	131,654
Education, Culture and Sport	162,286	166,985	169,829	175,698	177,733	180,126
Housing and Environment	36,644	35,611	33,893	36,816	37,084	37,356
Enterprise, Planning and Infrastructure	40,489	39,267	40,061	41,758	43,169	43,306
Office of Chief Executive	871	937	904	969	1,270	1,002
Council Expenses	2,150	2,150	2,150	2,150	2,150	2,150
Miscellaneous Services	41,356	42,528	49,012	53,667	61,852	66,617
Grampian Joint Valuation Board	1,512	1,512	1,512	1,512	1,512	1,512
Net Cost of Service	434,843	440,390	449,533	467,838	482,919	492,864
Funding						
General Revenue Grant	(144,312)	(129,720)	(129,720)	(129,720)	(129,720)	(129,720)
Non Domestic Rates	(177,084)	(193,738)	(193,738)	(193,738)	(193,738)	(193,738)
Assumed Settlement Adjustments	0	0	(3,500)	(7,000)	(9,000)	(9,000)
Teachers Induction Scheme Grant		(1,069)	(1,070)	(1,070)	(1,070)	(1,070)
Council Tax	(99,793)	(100,273)	(102,903)	(105,314)	(107,773)	(107,773)
Trading Services Surplus	(13,654)	(13,940)	(14,329)	(14,242)	(14,166)	(14,079)
Children & Young People's Bill		(1,650)	(2,350)	(2,350)	(2,350)	(2,350)
Funding	(434,843)	(440,390)	(447,610)	(453,434)	(457,817)	(457,730)
Budget (Surplus)/Deficit	0	(0)	1,923	14,404	25,102	35,134

APPENDIX 2		GROWTH				
Reference	Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
CORPORATE GOVERNANCE						
RCG01	Net staff movement (inc increments, effect of auto enrolment etc)	480	0	0	0	0
RCG03	Net position of ICT contract reviews	0	158	77	63	28
	Corporate Governance Total	480	158	77	63	28
SOCIAL CARE & WELLBEING						
RSCW01+2	Net staff movement (including increments, effect of auto enrolment etc)	627	402	402	402	402
RSCW09	Increase in national care home rate and free personal care rate	950	950	950	950	950
RSCW15	Demographic demand pressures on Learning Disability services	100	220	220	220	220
RSCW22	Children's Services: 2% year on year increase alternative family services	0	166	166	166	166
RSCW24	Slippage on Redesign of learning disability services saving (SCW01)	290	0	0	0	0
RSCW29	Demographic growth pressure on Older People+Rehab services	250	622	622	622	622
RSCW30	Additional cost pressure on externally purchased homecare	416	0	0	0	0
RSCW31	Fund increase in externally purchased services across directorate	600	748	748	748	748
RSCW32	Children and Young Persons Bill (SC&W elements)	650	0	0	0	0
	Social Care & Wellbeing Total	3,883	3,108	3,108	3,108	3,108
EDUCATION, CULTURE & SPORT						
RECS01	Net staff movement (including increments, effect of auto enrolment etc)	1,011	1,976	1,976	1,576	1,976
RECS04	Developing Service Delivery & new ways of working	1,200	0	0	0	0
RECS11	Unitary Charge	230	250	250	250	250
RECS12	Amendments to Nursery Hours	1,000	700	0	0	0
RECS13	Payments to outside contractors - nursery	99	0	0	0	0
RECS14	Curriculum Support for improving attainment	175	0	0	0	0
RECS15	Devolved Education Management (DEM) Savings Target Removal	639	0	0	0	0
RECS18	Furniture, Equipment & ICT provision for additional classrooms	175	0	0	0	0
RECS21	New statutory entitlement to pre-school education for looked after 2 year	100	0	0	0	0
RECS22	Specialist Placements	200	0	0	0	0
RECS24	Art Gallery redevelopment	0	66	110	149	167
RECS25	Transport - new school (South of City academy)	0	0	100	60	0
RECS26	New Additional Support Needs (ASN) School	0	660	330	0	0
	Education, Culture & Sport Total	4,829	3,652	2,766	2,035	2,393
HOUSING & ENVIRONMENT						
RHE-DIR01	Net staff movement (including increments, effect of auto enrolment etc)	201	107	107	107	107
RHE-HM01	Welfare Reform - Impact of Homelessness Income	0	1,139	0	0	0
RHE-WS01	Landfill Tax - Increase by £8 per tonne	749	0	0	0	0
RHE-WS02	Waste Contract Growth (Gate Fee) 2.6%	20	142	146	150	154
RHE-WS02	Waste Contract Growth (Contract Management Fee)	0	10	11	11	12
RHE-WS03	Food Waste Collections (Crews)	242	0	0	0	0
RHE-WS03	Food Waste Collections (Vehicles)	364	(320)	0	0	0
RHE-WS03	Food Waste Collections (Maintenance)	140	0	0	0	0
RHE-WS03	Food Waste Collections - Bags	80	20	0	0	0
RHE-WS03	Food Waste Collections - Bins	35	35	17	0	0
	Housing & Environment Total	1,831	1,133	281	268	272
ENTERPRISE, PLANNING & INFRASTRUCTURE						
REPI-AMO01	Roads: Increased Gully Maintenance	0	65	0	0	0
REPI-AMO02	Roads: Surface Dressing	0	160	200	240	0
REPI-AMO03	Roads: Pothole Patching	0	133	167	200	0
REPI-AMO04	Roads: Lining for Parking Restrictions	107	133	160	0	0
REPI-AMO05	Roads: Drainage Repairs & Flood Defences	0	207	248	0	0
REPI-AMO06	Street Lighting : Corroded Columns	0	254	317	378	0
REPI-AMO07	Public Buildings: Repairs & Maintenance	0	318	397	476	0
REPI-AMO21	Postage Costs	0	20	20	20	20
REPI-AMO28	Carbon Reduction Commitment (CRC) Costs for Council	198	0	0	0	0
REPI-DIR01	Net staff movement (including increments, effect of auto enrolment etc)	170	121	121	121	121
	Enterprise, Planning & Infrastructure Total	475	1,411	1,630	1,435	141
OFFICE OF THE CHIEF EXECUTIVE						
ROCE_01	2014 European Parliamentary Elections	33	0	0	0	0
ROCE_02	2014 Scottish Independence Referendum	33	0	0	0	0
	Elections 2015/16 -2018/19	0	(33)	65	301	(269)
	Office of the Chief Executive Total	66	(33)	65	301	(269)
MISCELLANEOUS SERVICES						
RCW01	Cultural Programme	400	310	90	(85)	(25)
RCW-ELEC	Increase in Electricity Costs	1,371	532	623	706	758
RCW-FUEL	Increase in Vehicle Fuel Costs	30	30	30	30	30
RCW-GAS	Increase in Gas Heating Costs	618	224	242	261	282
RCW-HEAT	Increase in Other Fuel & Heating Costs	35	45	14	14	58
RCW-OIL	Increase in Gas Oil Heating Costs	24	24	25	27	30
RCW-WATER	Increase in Water Rates	112	30	31	32	32
	Pay Award	0	3,600	3,600	7,200	3,600
	Miscellaneous Services Total	2,590	4,795	4,655	8,185	4,765
	Totals	14,154	14,224	12,582	15,395	10,438