



2018/19 BUDGET APPROACH

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Background

The Council sets budgets annually for its General Fund and Housing Revenue Account, both revenue and capital, Common Good and the North East Scotland Pension Fund.

This traditionally happens at a specific budget meeting of Council in February each year, thus ensuring deadlines in relation to setting Council Tax and Housing Rent levels are met. For the 2017/18 financial year this meeting took place on 22 February 2017.

In previous years the budget process has been an iterative process spanning a number of months and involving staff across the organisation and in particular the Finance Team, Extended Corporate Management Team (ECMT), Trade Unions and Elected Members. The approach largely focussed on the review of services and functions, identification of savings options, review of those options through service round tables, ECMT events, engagement with 3rd Tier staff, Trade Unions and Elected Members with the process culminating in a budget report to Council detailing the process undertaken, funding available and a number of proposed options for Elected Members to use in order to set a balanced budget.

At its meeting on 23 August 2017 Council considered and approved a Target Operating Model (TOM) which set out high level principles for a new way of working through the realignment of the key functions of the Council to a new organisational structure as well as a Transformation Portfolio and supporting Governance Framework.

It is important to maintain strong financial control and stability throughout any organisational change and key to this is the need to ensure there is strong alignment between the budget process and implementation of the TOM. The approved Transformation Portfolio is key to the realisation of benefits or savings over the next five years and as such there must be close linkages between transformation workstreams and the budget process.

The Policy Statement – Stronger Together and the LOIP (Local Outcome Improvement Plan) 2016-26 should be at the heart of our decision making and thus form the basis for the prioritisation of options as we work through transformation and its impact on the council's budget going forward.

Also underpinning the budget process is the need to ensure strong engagement with stakeholders, community empowerment and participatory budgeting.

A council wide review of budgeting, forecasting and planning was undertaken during May and June 2017, providing a number of recommendations including:

- a focus on the medium term with transformation targets and the identification of transformational options, directed through the transformation governance process, contributing to closing any funding gap;
- the need for all work to be collaborative and focussed on the new links created by the TOM;
- a shorter, more structured timeline with a strong core process for the co-ordination and collation of information, scrutiny, review and engagement with stakeholders and a robust governance process

2018/19 Budget Approach

General Fund - Revenue

Whilst the approach to setting the 2018/19 budget is in some ways fundamentally different to that used in previous years, there are a number of core preparatory tasks to be undertaken and information to be collated in order to provide a solid platform from which to work, including:

- formulation of assumptions e.g. pay awards, funding levels, inflationary uplifts
- calculation of staffing budgets, contractual and inflationary uplifts
- review of previously agreed savings options for impact on 2018/19
- review of current year (2017/18) cost pressures and assessment of impact on 2018/19, taking account of action taken in year to mitigate against the pressures
- assessment of transformational options and the likely savings which can be achieved
- calculation of core funding levels based on assumptions made

The output of the above provides the baseline budget gap i.e. gross expenditure less gross income which requires to be addressed through the budget process. It is important to note that, given the number of assumptions made, this baseline budget will move as assumptions are updated for new information or are crystallised.

The Transformation Portfolio aims to provide a balanced budget for 2018/19 and beyond. Transformation Fund has been established through the release of £15m from the Council's reserves with an agreement that reserves should be restored as part of the medium term financial strategy within a 5 year period. This use of this fund and associated benefits realisation is reported through the approved transformation governance structure and ultimately to the Strategic Transformation Committee (STC).

A number of workstreams have been initiated, developed to outline business case stage, reported to STC and following approval by STC are currently being developed to full business case. These workstreams have identified minimum and maximum returns or benefits realisation which will provide a basis for options to be put forward to Elected Members through the budget setting process.

In conjunction with these specific workstreams, the development of the Target Operating Model is also expected to identify and drive out efficiencies in working practices, ultimately providing further options for Elected Members to consider through the budget process.

In considering the baseline budget gap a number of assumptions are made around the funding settlement from the Scottish Government. This funding is key to the budget setting process and can have considerable impact on the baseline budget depending on the level of funding and any conditions the Scottish Government attach to the funding.

The release of the funding settlement to Councils is the culmination of a process which starts with the presentation of the Autumn Budget Statement 2017, to the UK Parliament, by the Chancellor of the Exchequer on 22 November 2017 with this statement providing the Scottish Government with its funding settlement from the UK Government. Thereafter, the Finance Secretary will present the Draft Budget to the Scottish Parliament on 14 December 2017, at which time the Council will receive its funding settlement, based on that Draft Budget.

This will crystallise a number of the assumptions made, allowing the baseline budget to be updated, providing a much firmer baseline budget and associated funding gap to be addressed through the budget setting process.

In setting its 2017/18 budget, Council considered and approved an IJB (Integration Joint Board) protocol which provided guidance on how officers from the IJB, Council and NHS Grampian will work together during the preparation of their three respective budgets. The protocol indicated that the IJB will agree its budget based on provisional funding levels and then the decision on the actual level of funding will be made at the Council meeting in terms of Social Care, and the NHS Grampian Board in relation to delegated health functions. A further report will be brought back to the IJB confirming the final funding levels and the IJB will then decide on any changes required to its provisional budget. It is proposed that this protocol be followed again for setting the 2018/19 budget.

Engagement with stakeholders including staff, trade unions and elected members is a key part of the approach to setting a budget. Through the various delivery and control boards and the Strategic Transformation committee, the governance already in place around the transformation portfolio includes trade unions and elected members thus providing them with a forum to access information, comment on the workstreams within the portfolio and provide strategic direction. In addition to this staff can access information and provide feedback both through the Transformation Zone and their normal workplace staff forums, whilst the Employee Rep Network provides a communications network which can help make sure staff feel informed and involved in what's happening at every stage as the organisation transforms.

With the responsibility of setting the Council's budget, it is important that elected members are kept informed through consultation and engagement throughout the process. This will happen in a variety of ways including through regular meetings with group leaders and key senior staff and specific meetings with both the coalition administration and each political party as they develop their budget proposals prior to budget setting day.

The timeline for setting the 2018/19 budget going forward is set out below:

Task Description	Key Dates
Ongoing review and update of assumptions, baseline budget information and identification of budget options	November 2017 – January 2018
Ongoing review and consideration of budget alignment to the LOIP and TOM	November 2017 – January 2018
UK Government Autumn Budget Statement 2017	22 November 2017
Scottish Government Draft Budget 2017 & Funding Settlement	14 December 2017
Analysis of Funding Settlement, Briefing Note issued and Baseline Budget updated	15 December 2017
Presentation of Full Business Cases to Strategic Transformation Committee	December 2017 – January 2018
Engagement with staff and trade unions	December 2017 – January 2018
Engagement with elected members	December 2017 – January 2018
Preparation of draft budget report	December 2017 – January 2018
Update, consultation and finalisation of budget report	15 December 2017 – 7 February 2018
Council Budget Meeting	19 February 2018

General Fund - Capital

A review and update of the five year capital programme is ongoing, which will take account of emerging capital investment requirements, whilst also paying cognisance to the need to maintain the underlying capital financing requirement at the levels presented to and used by the credit rating agency, Moody's in assessing the Council's credit rating. The approach for capital will largely follow the same process and timeline as stated above for revenue, whilst also taking account of the specific governance in place for capital including the necessary approvals by the Capital Board. Engagement and consultation with the Administration and representatives of all political parties will also be undertaken.

Housing Revenue Account – Revenue and Capital

The process to prepare the 2018/19 Housing Revenue Account revenue budget and five year capital programme is underway and will include specific engagement and consultation with senior management of the lead service (Communities, Housing & Infrastructure), the Convenor of Communities, Housing & Infrastructure Committee and representatives of all political parties. In addition, for capital the approach will take account of the capital governance process including the necessary approvals by the Capital Board.

Common Good

An investment strategy review is underway which, along with the normal review of income and expenditure, will inform the preparation of the Common Good budget for 2018/19. This will follow the same approach and timeline as that stated above for General Fund.

North East Scotland Pension Fund (NESPF)

While the costs associated with the administration of the NESPF are provided for within the General Fund Revenue Budget and are recoverable from the Fund, it is important these costs are transparent for all bodies within the Fund and therefore a separate budget report is prepared. The preparation of the NESPF budget and associated report will follow the same process and timeline as the General Fund.