

COMMITTEE	Council
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REPORT TITLE	General Fund Revenue Budget 2018/19 to 2022/23; General Fund Capital Programme 2018/19 to 2022/23
REPORT NUMBER	CG/18/032
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**1. PURPOSE OF REPORT:-**

1.1 The purpose of this report is to provide Council with details of:

- (i) the General Fund revenue budget for 2018/19 and high level summary for the following four years; and
- (ii) the General Fund capital programme for 2018/19 to 2022/23.

1.2 These budgets are based on the information contained within the Scottish Government Local Government Finance (Scotland) Settlement 2018-19 letter dated 14 December 2017 (Finance Circular No. 4/2017).

**2. RECOMMENDATION(S)**

It is recommended that Council:

2.1 Target Operating Model

- a) Note the alignment of the Council's revenue budget to the interim functional structure approved by Council in August 2017; and
- b) Instruct the Chief Officer - Finance to formally notify the approved budget to all the newly confirmed Chief Officers within the interim functional structure.

2.2 Balance Sheet Recommendations

- a) Note the projected balance sheet position including the reserves as at 31 March 2018;
- b) Approve the General Fund capital programme as attached at Appendix 1, and by doing so notes that the Council will be maintaining the level of debt as advised to Moody's, the Council's credit rating agency;
- c) Approve the Prudential Indicators as attached at Appendix 2 to this report; and by doing so notes that this demonstrates the affordability and

- sustainability the Council's borrowing levels and therefore ability to sustain the credit rating;
- d) Approve the recommended use of reserves for 2018/19 as detailed in paragraph 3.39, and by doing so notes that the level of uncommitted reserves is in line with CIPFA guidance as noted in its "Local Authority Reserves & Balances" bulletin published July 2014;
  - e) Note the contingent liabilities faced by the Council as detailed in Appendix 3, which may place future financial liabilities on the Council;
  - f) Note that transformation of the Council will require the use of reserves, including capital receipts to fund associated costs;
  - g) Delegates the Chief Officer – Finance to make suitable provision as part of the 2017/18 Annual Accounts for any future VS/ER payments which will be reported back to the relevant Committee in due course;
  - h) Approves the reserves strategy as outlined in paragraphs 3.37 to 3.39 which will ensure that reserves will increase over the medium term and therefore provide the Council with additional liquidity and financial resilience going forward; and
  - i) Instructs the Chief Officer – Finance to report back to the relevant Committee before December 2018 on a detailed reserves strategy.

## 2.3 Revenue Budget Recommendations

### **5 Year Revenue Budget Position**

- a) Note the draft financial position for 2019/20 to 2022/23 as shown in paragraph 3.40; and
- b) Instruct the Chief Executive to continue to progress the transformation programme, reporting transformation options and associated financial benefits through the approved transformation governance process, in order to address the future years funding gap.

### **One Year Revenue Budget Position and Taxation**

- c) Instruct officers on whether Council is exercising the flexibility to increase council tax under the local government finance circular and if so, to what level;
- d) Set a balanced revenue budget for 2018/19 which is a statutory requirement, by noting and agreeing the proposed options contained in Appendix 5;
- e) Note and accept the conditions of the Local Government Finance Settlement for 2018/19;
- f) Approve the level of funding for 2018/19 as detailed in paragraph 3.63, in relation to the Integration Joint Board (IJB), and note that it will be for the IJB itself to determine how it will balance its budget;
- g) Note that the IJB budget assumes an uplift on the national care home contract of 3.3%. This uplift has, in the last week, been agreed at 3.39% and therefore, instructs the Chief Officer (IJB) to work within the funding provided, taking action as appropriate to identify and implement further budget savings to achieve this; and
- h) Note that the budget assumes a pay award in line with the Scottish Government Public Sector Pay Policy and that in the event of national negotiations exceeding this assumption, to instruct the Chief Officer - Finance to report back to Finance, Policy and Resources Committee on options to finance the additional costs.

### 3. BACKGROUND/MAIN ISSUES

#### Target Operating Model

- 3.1 This budget report is presented to Council in the format and functions of the Target Operating Model as agreed by Council in August 2017.
- 3.2 In agreeing a new Target Operating Model, the Council considered a range of significant drivers for change including the severe financial challenges faced by local government.
- 3.3 Since the Council's decision to approve the Target Operating Model, work has focused on a number of key areas which impact on the Council's current and future financial position. These are:

- i. **Organisation design** - the structure of the organisation has been redefined through four functions to support outcome focused commissioning; customer focus; consolidated operations and resources) and the senior management structure across the four functions has been agreed at the Council's meetings in August and December 2017.

A key focus has been on the alignment of services and staff posts to the agreed transitional Target Operating Model structure. All cost centres, services and staff posts have now been aligned appropriately. As part of the alignment, an initial analysis of all clusters and service areas was carried out to identify opportunities for change, in line with the TOM design principles, through the eradication of duplication, consideration of span of control, as well as the introduction of digital processes. As a result of this analysis, the Strategic Transformation Committee on 9 February 2018, agreed financial savings through the reduction of FTE posts from the establishment for 2018/19, as detailed in paragraph 3.43 below.

- ii. **Commissioning** - a review and analysis of accounts payable, purchase order and contract data has been undertaken, examining £455 million of expenditure. Options were presented to the Strategic Transformation Committee on 9 February 2018 and savings as detailed in paragraph 3.43 below were approved for 2018/19. Work is ongoing with the Council's ALEO organisations to scope similar efficiency savings through third party spend and contract analysis.
- iii. **Service Transformation (Assets)** - a number of business cases have been progressed through the transformation programme and at their meeting on 9 February 2018, the Strategic Transformation Committee agreed actions to deliver savings for 2018/19, as detailed in paragraph 3.43 below, from efficiencies and rationalisation across its property estate. These actions are within the implementation of a Corporate Landlord model which will support the needs of the future Council, reduce operating costs and maximise commercial revenue.
- iv. **Digital** - following the completion of pilots for delivering wider digital services, the Strategic Commissioning Committee on 9 February 2018, agreed to the procurement of a digital booking services system. As part of this investment, the Committee noted that this would release channel

shift savings as well as a cash collection benefit which will be reflected in the budget as services are migrated to a digital platform.

Each of these workstreams are redesigning the organisation giving specific regard to the agreed Target Operating Model design principles noted below:

**Customer Service Design** – we need to define how we deliver customer service.

- a. **Organisational Design** – we need to define the organisational structures; roles, responsibilities, skills and capabilities; role performance measures.
- b. **Governance** – we need to define the governance arrangements and reporting requirements to run the organisation in an efficient and effective way.
- c. **Workforce** – we need to define the level and capability of people required to contribute positively to outcomes and to serve our customers. How many people do we need? How do we remunerate them? What skills and knowledge are required? What ways of working and what culture do we need? Promote equality in the workplace.
- d. **Process Design** – we need to define the functional and business processes to support the business objectives, while ensuring we consolidate and streamline common activity.
- e. **Technology** – we need to identify what technology is needed to deliver services to our customers whilst ensuring we use the technology in a person centred way.
- f. **Partnerships & Alliances** – we need to define how we collaborate with public, private, third sector and communities to achieve successful outcomes.

- 3.4 The Target Operating Model, and the work described above which is implementing the connected elements of it, set the context for the Council's 2018/19 financial position as shown below and the recommendations made in this report.

### **Credit Rating**

- 3.5 Aberdeen City Council was awarded a credit rating during 2016/17, which in turn allowed the Council to secure funding towards its capital investment programmes, through the issuance of £370 million of bonds on the London Stock Exchange.
- 3.6 The credit rating must be maintained throughout the terms of the bonds which will require the appointed credit rating agency to carry out a review at least once every twelve months.
- 3.7 In obtaining the original credit rating the Council provided an underlying borrowing requirement which was further confirmed during the first annual review carried out by the credit rating agency, Moody's, in October 2017. It is important that the Council adhere to this, as any upward deviation would require to be notified to the credit rating agency which could trigger a reassessment with the risk of the credit rating being downgraded.

- 3.8 Along with the Council's level of debt, a key element of the credit rating assessment is the Council's ability to meet its debt repayment obligations arising from this debt. The level of debt is directly linked to the Council's capital investment programme which is reflected through the Balance Sheet whilst repayment commitments are directly linked to the revenue account. The legal framework requires that debt repayment has the first call on the Council's revenue before all other expenditure.

### **2017/18 Financial Position**

- 3.9 The Quarter 3, 2017/18 financial position was considered by the Finance, Policy & Resources Committee on 1 February 2018. The report highlighted that a small overspend against budget is currently forecast, with this being in the context of a number of cost and demand pressures which have required to be actively managed and mitigated by services during the year.
- 3.10 The report also focussed on the Council's Balance Sheet and Reserves, providing details as at Quarter 3 and the projected level of usable reserves at year end. The projected level had taken account of the impact of accounting adjustments required in relation to the council's bond issuance as well as the use of reserves during the year to meet the costs of reducing staff numbers through a VS/ER scheme as agreed by Council in setting the 2017/18 budget.
- 3.11 The committee agreed the investigation and utilisation of an option to use capital receipts to fund VS/ER costs if deemed suitable. This option is available through statutory guidance from the Scottish Government, as detailed in Local Government Finance Circular 4/2015. This allows capital receipts to be used to fund the statutory elements of severance costs where those costs arise from service redesign, where this redesign is aligned to the preventative agenda and engagement with community planning partners and is evidenced through the committee reporting structure. The guidance specifically excludes the use of capital receipts to fund severance costs related to teachers. The use of this option for 2017/18 costs has been assumed and is reflected in the Balance Sheet presented below. It should be noted that the guidance will also allow a provision to be made at 31 March 2018 for those severance costs projected to be incurred during 2018/19. This has not been reflected in the Balance Sheet below but it is recommended that provision be made as part of the recommendations of this report.

### **Balance Sheet Position**

- 3.12 The Balance Sheet shows all the Council's assets and liabilities as projected at 31 March 2018, excluding any potential revaluations of its land and property assets and movements in liabilities such as pensions which are only reviewed and updated at year end for inclusion within the annual accounts, ensuring compliance with the accounting standards.
- 3.13 It further provides information on the level of reserves and balances held by the Council also at 31 March 2018 as currently projected.
- 3.14 The projected Balance Sheet is shown below:

<b>Balance Sheet</b>			
<b>31 March 2017</b>		<b>31 March 2018</b>	<b>Note</b>
<b>£000s</b>		<b>£000s</b>	
2,238,305	Property, Plant & Equipment	2,287,262	
172,756	Heritage Assets	172,756	
85,335	Investment Property	81,754	
18,656	Long Term Investments	18,656	
7,311	Long Term Debtors	7,465	
<b>2,522,363</b>	<b>Long Term Assets</b>	<b>2,567,893</b>	1
181,145	Cash and Cash Equivalents	42,212	
141,227	Short Term Investments	91,862	
78,679	Short Term Debtors	78,690	
1,645	Inventories	8,617	
5,382	Assets Held for Sale	5,382	
<b>408,078</b>	<b>Current Assets</b>	<b>226,763</b>	2
(81,351)	Short Term Borrowing	(34,386)	
(90,364)	Short Term Creditors	(67,683)	
(4,233)	Short Term Provisions	(3,664)	
(2,611)	PPP Short Term Liabilities	(3,222)	
(5,515)	Accumulated Absences Account	(5,515)	
(473)	Grants Receipts in Advance - Revenue	(201)	
(518)	Grants Receipts in Advance - Capital	(5,383)	
<b>(185,065)</b>	<b>Current Liabilities</b>	<b>(120,054)</b>	3
(895,458)	Long Term Borrowing	(882,409)	
(108)	Long Term Creditors	(108)	
(679)	Long Term Provisions	0	
(100,973)	PPP Long Term Liabilities	(97,751)	
(249,767)	Pension Liabilities	(249,767)	
<b>(1,246,985)</b>	<b>Long Term Liabilities</b>	<b>(1,230,035)</b>	3
<b>1,498,391</b>	<b>Net Assets</b>	<b>1,444,567</b>	
	Usable Reserves:		4
(50,476)	General Fund Balance	(40,461)	
(11,308)	Housing Revenue Account	(11,808)	
(25,606)	Statutory and Other Reserves	(16,393)	
(5,416)	Bond Premium	(19,179)	
(1,405,585)	Unusable Reserves	(1,356,726)	
<b>(1,498,391)</b>	<b>Total Reserves</b>	<b>(1,444,567)</b>	

## **Commentary on Balance Sheet**

### Note 1: Non-Current Assets (General Fund Capital Programme)

- 3.15 The total estimated value of non-current assets at 31 March 2018, prior to any revaluations, is £2.6 billion. Assets play a key role in service delivery and as such investment is required to ensure they are suitable for the delivery of services. A recent assets review considered the Council's operational assets and commercial estate, identifying opportunities available for immediate implementation along with areas of work and opportunities which will require further development to achieve operational and financial efficiencies. This, coupled with the Council's ambitious capital investment programme, as set out through the General Fund Capital Programme will have a positive impact on the Balance Sheet in both the short and longer term.
- 3.16 As previously stated in paragraphs 3.7 and 3.8, the Council's level of debt is a key element of its credit rating assessment and is directly linked to the capital investment programme. Therefore, in setting its capital programme it is important that Council understand that additional borrowing above that previously approved and advised to the credit rating agency, could lead to a detrimental movement in the Council's credit rating. The Council is required to demonstrate the affordability and sustainability of its capital investment through the setting of its Prudential Indicators and these are set out in Appendix 2.
- 3.17 Aside from borrowing, capital investment can be funded through project specific grant/lottery funding, use of capital receipts and the General Capital Grant provided by the Scottish Government. It should be noted that there is also an option to use capital receipts to fund severance costs as detailed in paragraph 3.11 above. The use of capital receipts has not been included for the purposes of funding the capital programme presented in this report.
- 3.18 The level of General Capital Grant provided by the Scottish Government is advised through the Local Government Finance (Scotland) Settlement 2018-19 (Finance Circular No. 5/2017) dated 14 December 2017. The General Capital Grant for 2018/19 is £23.677 million, with £0.313 million of specific grant also made available for Cycling, Walking, and Safer Streets (CWSS) projects.
- 3.19 It has been assumed that gross funding of £550.9 million is available for capital investment over the period of the programme, as shown in Appendix 1. This maintains the level of debt to that previously advised to the credit rating agency.
- 3.20 The Council has a process for identifying and ranking projects, or bids, and the outcome of this is the General Fund Capital Programme. This process ensures capital investment is aligned to the strategic priorities of the Local Outcome Improvement Plan (LOIP) – Prosperous People, Prosperous Place, Prosperous Economy and Enabling Technology.

### Significant Developments within the General Fund Capital Programme

- 3.21 The Capital programme has been extended since Council Budget Day in 2017. Additional projects which have been identified with a funding solution include; extended provision for early learning and child care provision in Northfield /

Cummings Park, a new Cruyff Court, the Community Growing Programme, the acquisition of Kingsmeade Nursing Home, the Joint Initiative for Vehicle Expansion (JIVE, or Hydrogen Buses Phase 2) and the expanded fibre network in conjunction with the City Region Deal.

- 3.22 Construction on the new Aberdeen Exhibition and Conference Centre, which will support and enhance Aberdeen's place culturally and in the global oil and gas industry, is well underway and the framework of the main building is now complete. The main structures of the hotel and energy centre are also in place. Preferred bidders for the Anaerobic Digestion Gas to Grid plant project have been identified following completion of due diligence on the financial model.
- 3.23 The construction of the Aberdeen Western Peripheral Route is approaching completion with the unitary charge mechanism in place for those sections which have reached "permitted for use" stage. The Council's contribution to this scheme remains capped at £75m. This is not impacted by the liquidation of Carillion, one of three companies who constituted the main contractor for the scheme.
- 3.24 The new Lochside Academy at the South of the City will accommodate pupils from Kincorth and Torry Academies when it opens at the start of the 2018/19 academic year. The state-of-the-art school will provide pupils and staff with the opportunity to enjoy learning and teaching in a modern, flexible environment, built to deliver the Curriculum for Excellence. By using modern technology, the new academy will be energy efficient which will help reduce the Council's carbon footprint.
- 3.25 The Council is in discussion with the Scottish Government over its national plans to expand nursery provision across Scotland through the Early Years expansion initiative. The financial settlement for 2018/19 includes £150 million of unallocated capital funding for this initiative. The Council has a programme of capital works identified and costed which on receipts of funding confirmation will be prioritised accordingly.
- 3.26 The regeneration of the city centre through the implementation of the City Centre Masterplan (CCMP) is proceeding. The Union Terrace Gardens proposals have been further developed over the last 12 months, with additional ground surveys undertaken to inform the ultimate design. Work on Broad Street is at an advanced stage. The proposals for Provost Skene House have been fully reviewed and a tender specification drawn up to ensure necessary repairs are completed to this historic asset during redevelopment, along with integration to the recently completed Marischal Square development.
- 3.27 As these major projects progress this reduces the overall risk that the Council is exposed to in terms of complexity of its capital programme as well as cost.
- 3.28 A number of projects currently included in the programme are subject to final review on completion of business cases and procurement, and therefore the **budgets shown are indicative** and should be viewed as pre-tender estimates only at this stage.



## Note 2: Current Assets – Liquidity Policy

- 3.29 The balance sheet, through its current assets (as well as certain liabilities and reserves) provides an indication of the overall liquidity position of the Council. With current assets of £226 million, the balance sheet shows that whilst the level has decreased in the year, the Council continues to have strength in this area. It should be remembered that the level of current assets in 2016/17 reflected the receipt of cash through the bond issuance which is now being utilised as work progresses on the Council's capital investment programme.
- 3.30 Liquidity is a key priority of the Council with governance of liquidity position being through the Council's Treasury Management Strategy which states that the Council's investment priorities are a) security of capital; and b) the liquidity of investments.
- 3.31 The level of liquidity required at any given time will be based on several factors, including:
- a) the Council's cash flow requirements over the months ahead, including known payments to third parties and loan repayments;
  - b) the level of surplus funds administered on behalf of other bodies such as the Pension Fund, ALEO's and Trusts, as these funds may be called back at any time by the bodies; and
  - c) any payments for capital projects which may be required financing at short notice.

## Note 3: Liabilities

- 3.32 The overall trend of decreasing liabilities is positive, reflecting reduced short and long-term borrowing.

## Note 4: Reserves

- 3.33 In setting its budget, the Council must have a clear reserves policy which currently includes de-risking the Council through the balance sheet and providing cash backed earmarked reserves for any known potential future liabilities. In addition, the Council must be aware of those issues, which whilst not certain and/or quantifiable at this time may result in financial liabilities in the future. Such issues are known as Contingent Liabilities and further details are provided in Appendix 3.
- 3.34 Reserves can be categorised as usable and unusable, with usable further broken down as follows:
- a) Earmarked – funds approved by committee to be set aside for known financial commitments or liabilities entered into but required to be settled in a future financial year or set aside to de-risk the Council from future financial exposure without having to make in-year savings to meet the liability;
  - b) Uncommitted – a sum set aside, currently £11.3 million, not held for any specific purpose but to be utilised in the event of major unforeseen incidents or emergencies. This is in line with CIPFA recommended practice as detailed in bulletin "Local Authority Reserves and Balances" published in July 2014 and it is the advice of the Head of Finance that this sum should

not be used and be retained at this level to ensure the Council has a prudent financial position for 2018/19; and

- c) Statutory – these are held under statute for specific purposes. The two main funds are the Capital Fund (can only be used for repayment of debt principal and capital expenditure) and the Insurance Fund (used to mitigate insurance payment related risks arising from claims). The Capital fund is currently fully earmarked for the purposes stated, such that any other use of this fund would require additional revenue savings to be found.

Unusable reserves are not available to be utilised by the Council. These reserves are used for accounting adjustments, reflecting statutory provisions in place to avoid costs being charged to the Council in meeting reporting requirements as defined within International Financial Reporting Standards.

- 3.35 In terms of continuing to strengthen the Council's balance sheet, to provide liquidity and to mitigate, where possible, against any future liabilities, it is also recommended that item a) above should not be used as a means of balancing the budget.
- 3.36 Overall, the Council has maintained the position of the balance sheet for uncommitted reserves to ensure there is medium term financial stability within the Council.

#### Reserves Policy

- 3.37 It is vital that the Council has a robust reserves strategy in place to ensure it has sufficient reserves to ensure liquidity on a day to day basis and has reserves to deal with any unforeseen events as well as preserve a robust position in relation to any contingent liabilities.
- 3.38 The strategy should therefore provide the following:
1. A commitment to increase reserves year on year until 2022/23;
  2. A commitment to having uncommitted General Fund balances of 3% of gross general fund expenditure by 2022/23;
  3. A commitment to replace reserves used for the purposes of the Transformation Programme by 2021/22; and
  4. A commitment to cash back all guarantees given by the Council, including loan agreements.

- 3.39 The table below shows the projected movement on reserves over the year:

<b>Reserves</b>				
	<b>Balance at 1 April 2017 £'000</b>	<b>Balance at 31 Dec 2017 £'000</b>	<b>Projected Balance at 31 March 2018 £'000</b>	<b>Notes</b>
<b>Earmarked Reserves</b>				
<b>Ring Fenced Funds</b>				
Energy Efficiency Fund	735	735	732	1
Bus Lane Enforcement	589	173	37	1
Second/Long Term Empty Homes	6,801	6,801	6,801	1
De-Risk The Council	2,655	2,505	2,405	
Investment Strategy (Digital)	666	0	0	
Transformation Fund	14,978	14,939	13,978	2
VS/ER Fund	5,976	926	3,165	3
Revenue Grants/Other	439	414	384	4
<b>Total</b>	<b>32,839</b>	<b>26,493</b>	<b>27,502</b>	
<b>Earmarked for Specific Projects</b>				
Business Plan Service Options	223	163	0	
Employee Benefits	77	31	0	
Events - Silver City Stores	8	1	0	
Ict Projects	23	23	0	
Star Awards	25	7	25	
Town House Microphones	14	0	0	
Xerox Print Contract	317	259	0	
Boiler Ferryhill Comm Centre	20	20	0	
Building Services IT Upgrade	148	78	0	
City Deal	219	0	0	
Comm Justice Redesign Post	20	20	0	
Comm Planning Part. Budgeting	9	9	0	
DEM - Community Education Centres	598	598	598	
Legal Costs - Culter House	5	5	0	
Men's Shed	5	5	0	
Milltimber Playground Outdoor Forest	1	1	0	
Mither Kirk - Burial of Remains	0	0	37	
New Shed St Clements Court	1	1	0	
Play Equip Crown Terrace Park	12	2	0	
Thomas Glover House	152	151	151	
Skene St Play Park Upgrade	7	2	0	
Upgrade Road At Torry Battery	193	139	0	
Westburn Park Cycle Track	29	29	0	
Youth Bus Torry Comm Centre	20	20	0	
DEM Schools Carry Forward	857	857	857	
Develop Young Workforce	66	0	0	
Hmt Roof Works	288	133	0	
ICT Fund	779	0	0	
Music Hall Redevelopment	800	0	0	
Reclaiming Social Work	1,430	961	0	
<b>Total</b>	<b>6,346</b>	<b>3,515</b>	<b>1,668</b>	
<b>Committed General Fund Balance</b>	<b>39,185</b>	<b>30,008</b>	<b>29,170</b>	
<b>Uncommitted General Fund Balance</b>	<b>11,291</b>	<b>11,291</b>	<b>11,291</b>	<b>5</b>
<b>Total General Fund Balance</b>	<b>50,476</b>	<b>41,299</b>	<b>40,461</b>	
<b>Statutory Funds</b>				
Capital Fund	23,702	33,442	14,680	6
Insurance Fund	1,558	1,369	1,368	
City Improvement Fund	340	340	340	
Lord Byron Fund	5	5	5	
<b>Total Statutory Funds</b>	<b>25,605</b>	<b>35,156</b>	<b>16,393</b>	
<b>Total</b>	<b>76,081</b>	<b>76,455</b>	<b>56,854</b>	

**Notes:**

1. These are ring fenced by virtue of statute.
2. There are currently agreed commitments of £9 million against this fund.
3. This takes account of the potential use of capital receipts to fund VS/ER costs.
4. This relates to items required to be earmarked to comply with accounting standards.
5. This is in line with best practice and the previously agreed strategy.
6. This takes account of the potential use of capital receipts to fund VS/ER costs.

**5 Year Revenue Budget Position – 2018/19 to 2022/23**

3.40 In forecasting the 2018/19 position into a medium term financial strategy, high level assumptions in terms of both costs and future funding levels have been made. The medium term (5 year) strategy is outlined below in line with the new target operating model and will be subject to movement between services as it is embedded in:

<b>General Fund Revenue Budget 5 Year Position</b>					
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Net Service Spend</b>					
Commissioning	21,487	21,499	21,509	21,519	21,529
Customer	39,944	39,662	39,375	39,088	38,801
Operations	247,959	251,604	254,380	257,896	261,532
Resources	32,293	50,660	66,581	81,599	107,768
City Growth	8,623	8,623	8,623	8,623	8,623
Governance	3,547	3,587	3,598	3,627	4,029
Strategic Place Planning	4,289	4,679	4,756	4,836	4,916
Integration Joint Board	84,995	82,483	80,046	78,437	77,626
HRA - Adjustment for Surplus	500	500	500	500	500
	<b>443,637</b>	<b>463,297</b>	<b>479,368</b>	<b>496,125</b>	<b>525,324</b>
Funding	<b>(438,754)</b>	<b>(432,357)</b>	<b>(426,572)</b>	<b>(423,935)</b>	<b>(424,431)</b>
<b>Deficit</b>	<b>4,883</b>	<b>30,940</b>	<b>52,796</b>	<b>72,190</b>	<b>100,893</b>

3.41 The following assumptions have been made in arriving at the base figures above:

	<b>Year 1</b>	<b>Years 2-5</b>
Pay Award	<£36,500 3%, £36,500-£80,000 2%, >£80,000 £1,600	2% annually
Teachers Pensions	No change	2% increase from 2019/20
Staff Vacancy Factor	£5m reduction	Further £2m reduction years 2 & 3
Energy	Gas 1.8%, Electric 5%, oil 8%, Heat-AHP 5%, Biomass 5% per annum	
Water Rates	Increase of 2.1% annually	
Non Domestic Rates	Increase of 3% annually	

Capital Financing Costs	Revised annually based on capital programme	
IJB	Reduction in Council funding will be reflected in IJB	
GRG/NDR (Funding)	Per Finance Circular	3% reduction in years 2 & 3, 2% reduction in year 4, 1% reduction in year 5
85% Floor Adjustment	Per Finance Circular	Per Year 1
Council Tax *	Uplifted for impact of additional homes annually	
Fees & Charges *	No change	2% increase annually

\* There are proposed options to vary these figures as detailed below

3.42 Options to achieve a balanced budget for 2018/19 are attached in Appendix 5. These proposals will have an impact across the 5 year period such that the entirety of this impact must be considered.

### **One Year Revenue Budget Position – 2018/19**

3.43 The 2018/19 budget position as presented at paragraph 3.40 above takes cognisance of decisions made by the Strategic Transformation Committee on 9 February 2018 and the expected financial benefits to be realised from those decisions as follows:

	<b>Benefits £'000</b>
Asset Review	737
Third Party Spend	6,000
Transition to Interim TOM	10,378
<b>Total</b>	<b>17,115</b>

### **Income**

3.44 The Council funds the services it provides through the following sources of income:

- a) Council Tax – raised locally;
- b) Non Domestic Rates (NDR) – forms part of the overall government funding distribution mechanism;
- c) General Revenue Grant (GRG) – from the Scottish Government and includes an allocation of ring-fenced funding; and
- d) Fees and Charges – raised locally (through car parking charges, investment income and charges for services provided)

3.45 The Scottish Government's Local Government Finance (Scotland) Settlement 2018-19 (Finance Circular No. 5/2017) dated 14 December 2017 provides details of Non Domestic Rates and the General Revenue Grant funding for the financial year 2018/19 only.

3.46 In terms of Non Domestic Rates, the circular states that the poundage rate has been provisionally set at 48.0p for 2018/19 (an increase from 46.6p in 2017/18), with this calculated as a CPI inflationary uplift rather than the normal September RPI. The Large Business Supplement threshold has been

provisionally set at 2.6p for properties with a rateable value over £51,000, while the Small Business Bonus Scheme threshold for 100% relief remains at £15,000 with further tapered relief for rateable values up to £35,000.

3.47 The circular also provides details of a number of other updates as follows:

- Transitional arrangements (including ‘transitional relief’) are proposed to continue into 2018-19 for hospitality properties (with a rateable value up to £1.5 million) and offices in Aberdeen City and Shire;
- It is proposed that the Fresh Start relief be expanded to apply to all types of properties, the qualifying period that properties must be empty reduced from 12 to 6 months and the level of relief increased from 50% to 100%;
- A new Business Growth Accelerator is proposed to apply from 1 April 2018. This will delay any increases in rates liability due to the improvement of, or expansion of an existing property for 12 months, and means that new-build properties pay no rates for an initial year once entered on the valuation roll;
- Additionally, any new build property will not be entered onto the roll by the Assessors until it is occupied;
- A new relief for day nurseries is proposed which will offer 100% relief for properties wholly or mainly used to provide day nursery care for pre-school children;
- It is proposed to create a new relief for hydro generation properties at 60% for properties with a rateable value of up to £5 million with this relief awarded under de minimis rules and applicable cumulatively with the community renewables generation relief;
- A new relief for new broadband fibre infrastructure will be met in 2018-19 by the growth accelerator; and
- An implementation plan has been published setting out detail on how the recommendations of the Barclay review will be taken forward.

3.48 In calculating the Council Tax figure, the following assumptions have been made:

- Collection rates have been maintained at 2017/18 levels; and
- The number of Band D equivalent properties has been increased by 1,289 such that projected income has increased by £1.2 million.

3.49 The movement in income from 2017/18 to 2018/19 is shown in the table below:

	2017/18	2018/19	Movement
	£'000	£'000	£'000
General Revenue Grant (GRG)	(108,975)	(86,317)	22,658
GRG - 85% Floor	(10,000)	(8,700)	1,300
Non Domestic Rates	(205,547)	(227,801)	(22,254)
GRG not yet distributed - Teachers Induction Scheme	0	(1,124)	(1,124)
GRR not yet distributed - Early Years Expansion	0	(1,832)	(1,832)
Council Tax - Base	(111,576)	(111,759)	(183)
Council Tax - New Properties	0	(1,221)	(1,221)
<b>Total Funding</b>	<b>(436,098)</b>	<b>(438,754)</b>	<b>(2,656)</b>

## Taxation Powers

### Council Tax

- 3.50 The Scottish Government's Local Government Finance (Scotland) Settlement 2018-19 (Finance Circular No. 5/2017) dated 14 December 2017 states that for 2018-19, the Scottish Government will work in partnership with local government to implement the budget and the joint priorities in return for the full funding package, which includes the continued flexibility to increase their council tax by up to 3%. The current Band D Scottish average is £1,173. The impact of a 3% increase in Council Tax by Band (excluding water and sewerage) is shown below:

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Current Charge	820.26	956.97	1,093.68	1,230.39	1,616.60	1,999.38	2,409.51	3,014.56
Revised Charge	844.87	985.68	1,126.49	1,267.30	1,665.10	2,059.36	2,481.80	3,105.00

### Non Domestic Rates

- 3.51 The Finance, Policy & Resources Committee on 29 June 2017 agreed that a non-domestic rates local transitional scheme be implemented to give relief for the period 01/04/2017 to 31/03/2018 on increases above 14.75% (in line with the Scottish Government increase) up to a maximum award per business property, provided any such award complied with state aid rules. To date there have been 644 applications to the local scheme, with a value of £1.7 million to be met by the Council.
- 3.52 As the costs are required to be met by council tax payers, the Council must have due regard to its income and expenditure and the interests of those liable to pay council tax for any local relief scheme.

## Expenditure

- 3.53 The movement in net expenditure from 2017/18 to 2018/19 is £7.539 million with some of the main areas of movement being as follows:

	£'000
Staff Increments	2,737
Pay Award (see below)	8,222
Unitary Charge	1,421
IJB Funding (see below)	1,687
Expansion of Early Years	1,832
STC Decisions:	
Assets Review	(737)
Third Party Spend	(6,000)
Transition to Interim TOM	(10,378)

Further details are shown in Appendix 4.

The pay award assumptions are in line with the Scottish Government Public Sector Pay Policy, 3% on salaries up to £36,500, 2% on salaries between £36,500 and £80,000 and £1,600 on salaries above £80,000. Negotiations are ongoing between Trade Unions and negotiating bodies on the 2018/19 pay award and therefore it should be noted that any pay award above this will have financial implications for the Council such that additional efficiencies will require to be identified to retain a balanced budget position.

This is the net movement arising from additional funding provided for the Scottish Living Wage offset by a funding reduction in line with the Council's. The National Care Contract is currently being negotiated and the IJB have assumed a level of increase in their budget which is to be met from existing resources. The Council does not intend to provide additional funding in relation to any increase on this contract.

- 3.54 The Scottish Government's Local Government Finance (Scotland) Settlement 2018-19 (Finance Circular No. 5/2017) dated 14 December 2017 states the following:
- Local authorities continue to be required to maintain an overall pupil:teacher ratio of 13.7, and secure places for all probationers who require one under the Teacher Induction Scheme;
  - an additional £66 million to support additional investment in social care, including support for the implementation of the Carers (Scotland) Act 2016, the Living Wage (including extending it to cover sleepovers) and an increase in the Free Personal and Nursing Care payments;
  - continued flexibility to increase Council Tax by up to 3%.
- 3.55 The movement in expenditure combined with the movement in funding as detailed in paragraph 3.49 above, give a deficit in the 2018/19 budget of £4.883 million.



- 3.56 Options identified to mitigate this deficit are detailed in Appendix 5 and are summarised as follows:
- Fees & Charges - £1.638 million
  - Council Tax - £3.389 million
- 3.57 The use of these options will move the 2018/19 budget to a surplus of £0.144 million.

#### **Items not included in the revenue budget**

- 3.58 Appendix 6 provides details of items which have not been included in the above 2018/19 budget figures. These items, totalling £0.541 million, relate to items referred to the budget process from committees.
- 3.59 Should Council wish to accept all or some of these items into the 2018/19 budget, identification of further savings options will be required to allow this, such that the overall budget position is balanced, as is required by statute.

#### **Group Accounts – Subsidiaries and Joint Ventures**

- 3.60 The Council has a number of subsidiaries and joint ventures, with the most significant being Bon Accord Care and Sport Aberdeen (Subsidiaries) and Aberdeen Sports Village and the Integration Joint Board (Joint Ventures).
- 3.61 Whilst the organisations above are responsible for service delivery, the Council provides significant funding to them and therefore remains responsible for ensuring that public funds are used properly and demonstrate best value. The Council has set up governance arrangements with these bodies which ultimately provides assurance to the Audit, Risk & Scrutiny Committee.
- 3.62 It is worth noting that the credit rating agency are particularly interested in the bodies within the Council's group structure and their ability to impact on the underlying borrowing requirement of the Council.
- 3.63 The table below provides details of the funding levels included in the 2018/19 budget:

	<b>Funding 2017/18</b>	<b>Funding 2018/19</b>	<b>Note</b>
Bon Accord Care	26.29m	26.98m	1
Sport Aberdeen	5.35m	5.24m	
Aberdeen Sports Village	1.02m	1.02m	
Integration Joint Board (IJB)	83.30m	84.99m	2

#### **Notes**

1. Bon Accord Care is funded by the Integration Joint Board, which is required to indicate the value of the services to be provided through the contract and it therefore included for information only (note these figures excludes Kingsmead monies as this matter is still being pursued).
2. These figures include funding to Bon Accord Care as per the arrangement described above. Further information on the IJB is provided below.

## **Integration Joint Board (IJB)**

- 3.64 As part of the Council's budget setting process, the sums to be transferred to the IJB have to be identified and are provided in paragraph 3.63 above.
- 3.65 The combined 2017/18 budget for the IJB, from Aberdeen City Council (ACC) and NHS Grampian (NHSG) is approximately £258 million.
- 3.66 At its meeting on 13 February 2018, the IJB considered its 2017/18 financial position and medium term financial strategy.
- 3.67 It was reported, that in 2017/18, the mainstream budget is forecast to overspend due to pressures in prescribing, hosted services and out of authority placements, which is more than offset by an underspend on the integration and change fund, thereby mitigating the need to seek additional funding from the partners. It should be noted that whilst steps have been taken to address this overspend, the Aberdeen City Integration Scheme provides options including that one or both parties, ACC and NHSG, may make an additional payment to the IJB to cover an overspend.
- 3.68 The report recognised the financial challenges faced by both ACC and NHSG and noted that only provisional settlement figures were available at this time. It further noted that the grant settlement for each body no longer provides conditions on the amount of funding the IJB's should receive and that the amount of funding to be allocated by partners is to be agreed through local negotiations. In providing the IJB with indicative figures, it has been assumed that IJB funding is reduced in line with the Council's funding reduction, which equates to a reduction in funding to the IJB of £0.832 million.
- 3.69 It was further reported that additional funding has been allocated through the Local Government settlement for the Scottish Living Wage and implementation of the Carers Act. To this end, the Council has provisionally allocated a sum of £2.519 million to the IJB for this.
- 3.70 It is acknowledged that the funding position can only be formally agreed once the partners have their final settlement details and set their budgets.

## **Participatory Budgeting**

- 3.71 The Scottish Government's "Programme for Government" includes a commitment that 1% of each local authority's annual budget be allocated through a participatory budgeting (PB) process. The Scottish Government and COSLA agreed, in late 2017, a "framework" for delivering this commitment with further national guidance to follow in due course.
- 3.72 Based on existing information available, 1% equates to £4.5 million. This target can be met from all the Council's resources i.e. General Fund revenue and capital, HRA revenue and capital, IJB and Common Good.
- 3.73 During 2018/19, we will continue to develop our approach to empowering communities to make decisions on how budgets are allocated, expanding our use of PB and working towards the 1% commitment.

- 3.74 An amount of £1.5 million is allocated as the Fairer Aberdeen Fund and the Fairer Aberdeen Board, including 10 community representatives will determine funding allocations to initiatives working to achieve our community regeneration and socio-economic equality objectives. We intend working with the Fairer Aberdeen Board to further strengthen communities influence and involvement in deciding allocation of the fund.
- 3.75 Community representatives from the Fairer Aberdeen Board and our new Locality Planning Partnerships will be invited to decide of the allocation of £50k to deliver 10,000 meals to children during school holidays alongside activity programmes.
- 3.76 £800k has been allocated from the Housing Revenue Account for community initiatives and environmental improvements and tenants will be involved in PB processes to determine the use of these funds for improvement to their local communities.
- 3.77 £60k has been allocated for PB to provide a range of activities and interventions to divert young people from substance misuse and support young people's health and wellbeing by enabling them to make positive lifestyle choices. Young People will again be involved in determining grants from a £50k Youth Achievement budget. We will work with the young people involved in the existing panel to involve greater numbers of young people in these funding decisions.
- 3.78 This year we will also explore how we may use PB to allocate Common Good funding.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 The Scottish Government's Local Government Finance (Scotland) Settlement 2018-19 (Finance Circular No. 5/2017) dated 14 December 2017 provides details of General Fund revenue and capital funding for the financial year 2018/19.
- 4.2 Total revenue funding for 2018/19 is £323 million, excluding items still to be distributed - Teacher's Induction Scheme, Discretionary Housing Payments, Criminal Justice Funding and Early Years Expansion.
- 4.3 Assuming the Council receives broadly its share of these undistributed amounts the total funding (after new funding commitments) is estimated to be £324.9 million, which represents a decrease in funding of approximately 1.0% (comparator figure for 2017/18 is £328.2 million).
- 4.4 Total capital funding is £24 million, which represents a reduction of £2.2m (8.4%) compared to 2017/18.

4.5 Further analysis of revenue and capital funding is shown below:

	<b>Per FC No. 5/2017</b>	<b>Share of Non Distributed Amounts</b>	<b>Total included in Draft Budget</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Specific Revenue Grant	2,911	-	2,911
General Revenue Grant	92,245	1,923	94,168
Non Domestic Rates	227,801	-	227,801
<b>Total Revenue Funding</b>	<b>322,957</b>	<b>1,124</b>	<b>324,880</b>
General Capital Grant	23,677	-	23,677
Specific Capital Grant	313	-	313
<b>Total Capital Grant</b>	<b>23,990</b>	<b>-</b>	<b>23,990</b>

4.6 A number of grant conditions have been applied to the settlement:

- Maintaining overall pupil-teacher ratio at 2016/17 levels;
- Continued flexibility to increase Council tax levels by up to 3%; and
- Expansion of early learning and childcare.

## 5. LEGAL IMPLICATIONS

5.1 While there are no direct legal implications arising from the recommendations of this report, there are additional reporting requirements due to the London Stock Exchange listing and issue of bonds.

## **6. MANAGEMENT OF RISK**

### **Financial**

- 6.1 Every organisation must manage the risks inherent in the operation of large and complex budgets. These risks are minimised by the regular review of financial information by services and corporately by elected members. This report is part of that framework.
- 6.2 Other risks the Council should be aware of in setting the budget include the non-delivery of savings options that are approved. To mitigate this risk options are assessed in terms of deliverability.
- 6.3 In relation to capital projects there is a risk that following the procurement process, tendered costs will vary from that assumed at the time of project approval. This risk is mitigated through quantification and review of indicative project costs by suitably qualified staff or external body where appropriate.

### **Legal**

- 6.4 There are statutory duties imposed on the Council to set council tax and balance its budget. These duties are complied with in terms of the recommendations in this report. Breach of such statutory duties would have serious implications for the Council.

### **Other**

- 6.5 Consideration has also been given to Employee, Customer / Citizen, Environmental and Technological risks, and no risks were identified.

### **Reputational**

- 6.6 The reputational risks to the Council are minimised by the regular review of financial information by services, CMT and Elected Members throughout the Financial Year.

## **7. IMPACT SECTION**

### **Economy**

- 7.1 Investment in the city will have a positive impact on the economy.

### **People**

- 7.2 Robust management of the Council's finances will ensure that services can continue to be provided.

### **Place**

- 7.3 Investment will enhance the place by creating a better and more vibrant city in which to live.

## **Technology**

- 7.4 There are no direct implications on technology arising from the recommendations of this report

## **8. BACKGROUND PAPERS**

Scottish Government Circulars  
CIPFA “The Prudential Code for Capital Finance in Local Authorities”

## **9. APPENDICES**

Appendix 1 – General Fund Capital Programme  
Appendix 2 – Prudential Indicators  
Appendix 3 – Contingent Liabilities  
Appendix 4 – General Fund Revenue - movements  
Appendix 5 – General Fund Revenue - options  
Appendix 6 – General Fund Revenue – referrals from committees

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## APPENDIX 1

Outturn			Budget	Budget	Budget	Budget	Budget	Total
2017/18			2018/19	2019/20	2020/21	2021/22	2022/23	
£'000	NHCP No.	Fully or Partially Legally Committed Projects	£'000	£'000	£'000	£'000	£'000	£'000
7,481	294	Corporate Property Condition & Suitability	8,608	8,985	8,000	8,000	8,000	41,593
316	551	Cycling Walking Safer Streets	313	0	0	0	0	313
1,146	587	Access from the North / 3rd Don Crossing	1,443	0	0	0	0	1,443
4,132	627	Aberdeen Western Peripheral Route	20,041	2,405	825	2,605	227	26,103
102	630	Data Centre Transition & Infrastructure Transformation	116	0	0	0	0	116
0	765	Nestrans Capital Works	0	0	0	0	0	0
1,000	765G	Nestrans Capital Grant	2,691	1,500	1,295	1,295	1,295	8,076
(43)	773	New Brimmond School	0	0	0	0	0	0
3,444	776	Orchard Brae	0	0	0	0	0	0
700	779	Private Sector Housing Grant (PSHG)	700	700	700	700	700	3,500
		Fleet Replacement Programme						
2,979	784	(including Zero Waste Strategy Fleet)	4,009	4,100	4,272	4,300	4,500	21,181
5,115	789	Planned Renewal & Replacement of Roads Infrastructure	5,148	5,211	4,968	4,968	4,968	25,263
473	789E	Street Lighting	500	1,000	1,000	1,000	1,000	4,500
0	794	Hydrogen Buses	5	0	0	0	0	5
360	795	Accelerate Aberdeen (City Broadband)	0	0	0	0	0	0
0	798	National Housing Trust Loans	0	0	0	0	0	0
927	805	Technology Investment Requirements & Digital Strategy	2,057	0	0	0	0	2,057
1,775	807	A96 Park & Choose / Dyce Drive Link Road	40	0	0	0	0	40
185	811	Social Care Facilities - Len Ironside Centre	102	0	0	0	0	102
512	819	Tillydrone Community Hub	4,627	134	0	0	0	4,761
122,922	821	New Aberdeen Exhibition & Conference Centre	118,624	44,786	0	0	0	163,410
10	825	City Deal	34	0	0	0	0	34
(52)	826	Aberdeen City Hydrogen Energy Storage (ACHES)	0	0	0	0	0	0
541	827	SIP New Build Housing Programme	700	200	0	0	0	900
495	828	Greenbrae Primary Extension and Internal Works	0	0	0	0	0	0
(95)	829	Middlefield Project Relocation (Henry Rae CC)	0	0	0	0	0	0
10,461	831	Stoneywood Primary	1,471	0	0	0	0	1,471
10	832	Dyce 3G Pitch	0	0	0	0	0	0
42	834	Refurbish Throughcare Facility - 311 Clifton Road	0	0	0	0	0	0
1,500	835	Street Lighting LED Lanterns (PACE 5 Year programme)	1,659	1,500	1,500	1,500	700	6,859
10	836	Flood Prevention Measures: Flood Guards Grant Scheme	100	100	100	100	81	481
		Flood Prevention Measures: Riverside Drive at Bridge of Dee						
300	837	Court	200	0	0	0	0	200
650	843	Station House Media Unit Extension	444	0	0	0	0	444
8,983	799B	Art Gallery Redevelopment - Main Contract (HLF)	2,508	0	0	0	0	2,508
0	808A	New Academy to the South - ICT Infrastructure	1,000	0	0	0	0	1,000
270	808B	New Academy to the South - Infrastructure Improvements	1,230	0	0	0	0	1,230
3,944	810C	Energy from Waste (EFW) Procurement and Land Acq.	589	1,382	0	0	0	1,971
1,603	810E	Investment in Waste Collection	0	0	0	0	0	0
474	810F	Refuse Derived Fuel Plant	0	0	0	0	0	0
716	810G	Co-mingled MRF & Depot	240	0	0	0	0	240
793	844	Sustrans Active Travel Infrastructure Fund	401	0	0	0	0	401
82	845	City Deal: Strategic Transport Appraisal	668	50	200	0	0	918
1,500	846	City Deal: Aberdeen Harbour Expansion Project	2,000	2,000	0	0	0	4,000
0	847	City Deal: Digital Infrastructure	1,750	1,750	0	0	0	3,500
0	848	JIVE (Hydrogen Buses Phase 2)	3,053	4,147	0	0	0	7,200
80	850	Community Growing Spaces	65	0	0	0	0	65
0	852	City Deal: City Duct Network	2,000	2,000	1,000	0	0	5,000
100	854	City Deal: Transportation Links to Bay of Nigg	0	0	0	0	0	0
820	857	Central Library Roof & Parapets	30	0	0	0	0	30
2,000	860	City Deal: Expand Fibre Network	0	0	0	0	0	0
<b>188,763</b>			<b>189,166</b>	<b>81,950</b>	<b>23,860</b>	<b>24,468</b>	<b>21,471</b>	<b>340,915</b>
Outturn			Budget	Budget	Budget	Budget	Budget	Total
2017/18			2018/19	2019/20	2020/21	2021/22	2022/23	
£'000	NHCP No.	Projects with indicative budgets	£'000	£'000	£'000	£'000	£'000	£'000
1,922	791	Strategic Land Acquisition	1,051	2,775	0	0	0	3,826
50	806A	CATI - South College Street	250	2,300	2,300	492	0	5,342
685	806B	CATI - Beryden Corridor (Combined Stages 1, 2 & 3)	320	3,096	10,300	4,490	0	18,206
0	809	New Milltimber Primary	500	11,000	1,500	0	0	13,000
0	810J	Bridge of Don Household Waste Recycling Centre (HWRC)	50	50	1,300	0	0	1,400
456	810K	Energy from Waste (EFW) Construction & Torry Heat Network	457	22,000	49,000	13,087	0	84,544
420	812	Kingsfield Childrens Home	1,080	50	0	0	0	1,130
30	820	Investment in Tenanted Non-Residential Property Portfolio	500	2,340	0	0	0	2,840
		New Aberdeen Exhibition & Conference Centre : Anaerobic						
0	821	Digestion Plant	21,270	4,000	0	0	0	25,270
4,969	824	City Centre Regeneration	17,377	7,824	0	0	0	25,201
0	838	Flood Prevention Measures: Millside & Paddock Peterculter	0	2,000	1,000	0	0	3,000
150	840	Tillydrone Primary School	9,316	7,500	0	0	0	16,816
150	841	Torry Primary School and Hub	9,833	9,000	1,000	0	0	19,833
0	849	Cruyff Court	250	0	0	0	0	250
		Northfield / Cumming Park Early Learning and Childcare						
0	851	Provision	500	0	0	0	0	500
tbc	856	Acquisition of Kingsmead Nursing Home	0	0	0	0	0	0
111	858	Crematorium Refurbishment	1,004	15	0	0	0	1,019
0	859	ICT: Human Capital Management System	800	0	0	0	0	800
957	999	Construction Inflation Allowance for existing projects	15,000	0	0	0	0	15,000
<b>9,900</b>			<b>79,558</b>	<b>73,950</b>	<b>66,400</b>	<b>18,069</b>	<b>0</b>	<b>237,977</b>
<b>198,663</b>		<b>Totals</b>	<b>268,724</b>	<b>155,900</b>	<b>90,260</b>	<b>42,537</b>	<b>21,471</b>	<b>578,892</b>

Forecast									
Outturn		Non-Housing Capital Programme	Budget	Budget	Budget	Budget	Budget		Total
2017/18			2018/19	2019/20	2020/21	2021/22	2022/23		
£'000	NHCP No.		£'000	£'000	£'000	£'000	£'000	£'000	£'000
(226)	294	Corporate Property Condition & Suitability	0	0	0	0	0	0	0
(316)	551	Cycling Walking Safer Streets	0	0	0	0	0	0	0
(15)	587	Access from the North / 3rd Don Crossing	(2,000)	0	0	0	0	0	(2,000)
0	765	Nestrans Capital Works	0	0	0	0	0	0	0
(126)	784	Fleet Replacement Programme (including Zero Waste Strategy Fleet)	0	0	0	0	0	0	0
(250)	789	Planned Renewal & Replacement of Roads Infrastructure	0	0	0	0	0	0	0
0	794	Hydrogen Buses	0	0	0	0	0	0	0
(360)	795	Accelerate Aberdeen (City Broadband)	0	0	0	0	0	0	0
(3,676)	799B	Art Gallery Redevelopment - Main Contract (HLF)	(9,262)	0	0	0	0	0	(9,262)
(345)	805	Technology Investment Requirements & Digital Strategy	0	0	0	0	0	0	0
0	809	New Milltimber Primary	0	(2,421)	0	0	0	0	(2,421)
(2,583)	810C	Energy from Waste (EfW) Procurement and Land Acq.	(397)	(18)	0	0	0	0	(415)
(274)	810K	Energy from Waste (EfW) Construction & Torry Heat Network	(274)	0	0	0	0	0	(274)
(512)	819	Tillydrone Community Hub	(1,388)	0	0	0	0	0	(1,388)
(3,000)	821	New Aberdeen Exhibition & Conference Centre	(2,500)	0	0	0	0	0	(2,500)
(800)	823	Music Hall Refurbishment	0	0	0	0	0	0	0
(100)	824	City Centre Regeneration	0	0	0	0	0	0	0
(206)	826	Aberdeen City Hydrogen Energy Storage (ACHES)	0	0	0	0	0	0	0
0	827	SIP New Build Housing Programme	(2,050)	(950)	0	0	0	0	(3,000)
(750)	828	Greenbrae Primary Extension and Internal Works	0	0	0	0	0	0	0
(22)	829	Middlefield Project Relocation (Henry Rae CC)	0	0	0	0	0	0	0
(4,066)	831	Stoneywood Primary	0	0	0	0	0	0	0
(10)	832	Dyce 3G Pitch	0	0	0	0	0	0	0
(42)	834	Refurbish Throughcare Facility - 311 Clifton Road	0	0	0	0	0	0	0
0	836	Flood Prevention Measures: Flood Guards Grant Scheme	(80)	(80)	(80)	(160)	0	0	(400)
0	837	Flood Prevention Measures: Riverside Drive at Bridge of Dee Court	(400)	0	0	0	0	0	(400)
0	838	Flood Prevention Measures: Millside & Paddock Peterculter	0	0	(2,400)	0	0	0	(2,400)
(750)	843	Station House Media Unit Extension	(327)	0	0	0	0	0	(327)
(574)	844	Sustrans Active Travel Infrastructure Fund	0	0	0	0	0	0	0
0	848	JIVE (Hydrogen Buses Phase 2)	(1,375)	(2,225)	(550)	(550)	0	0	(4,700)
(1)	850	Community Growing Spaces	0	0	0	0	0	0	0
0	852	City Deal: City Duct Network	(2,000)	(2,000)	(1,000)	0	0	0	(5,000)
(100)	854	City Deal: Transportation Links to Bay of Nigg	0	0	0	0	0	0	0
(2,000)	860	City Deal: Expand Fibre Network	0	0	0	0	0	0	0
(21,104)		<b>1. Programme Funding Streams Sub-Total</b>	<b>(22,053)</b>	<b>(7,694)</b>	<b>(4,030)</b>	<b>(710)</b>	<b>0</b>	<b>0</b>	<b>(34,487)</b>
(25,869)		<b>2. Capital Grant</b>	<b>(23,990)</b>	<b>(24,000)</b>	<b>(24,000)</b>	<b>(24,000)</b>	<b>(24,000)</b>	<b>(24,000)</b>	<b>(119,990)</b>
(151,690)		<b>3. Other Financing</b>	<b>(222,681)</b>	<b>(124,206)</b>	<b>(49,508)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(396,395)</b>
(198,663)		<b>Sub-total</b>	<b>(268,724)</b>	<b>(155,900)</b>	<b>(77,538)</b>	<b>(24,710)</b>	<b>(24,000)</b>	<b>0</b>	<b>(550,872)</b>
0		<b>Cashflow</b>	<b>0</b>	<b>0</b>	<b>(12,722)</b>	<b>(17,827)</b>	<b>2,529</b>	<b>0</b>	<b>(28,020)</b>
0		<b>Net Position</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



**ABERDEEN CITY COUNCIL  
2017/18 to 2022/23**

**THE PRUDENTIAL CODE  
For Capital Finance in Local Authorities**

From 1 April 2004, Councils are required by Regulation to have regard to the Prudential Code (the Code) when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003.

In setting the revenue and capital budgets, members will be aware that under the Prudential Code, the level of capital investment is determined locally. Therefore, these indicators will be reviewed on an ongoing basis to ensure that the Council does not breach the indicators it sets.

The key objectives of the Code are to ensure:-

- The Council's capital programmes are affordable, prudent and sustainable.
- Treasury management decisions are taken in accordance with good professional practice.

The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

In setting the indicators, cognisance should be paid to the level of capital investment looking ahead for a three year period, for both the housing and non-housing capital programmes that the Council wishes to embark upon. The Code also requires that the underlying requirement to finance PPP projects and finance leases be included when setting the indicators.

The Code requires the following Prudential Indicators are set for the Council:-

	<b>Capital Expenditure</b>						
	<b>2016/17 £'000 Actual</b>	<b>2017/18 £'000 Estimate</b>	<b>2018/19 £'000 Estimate</b>	<b>2019/20 £'000 Estimate</b>	<b>2020/21 £'000 Estimate</b>	<b>2021/22 £'000 Estimate</b>	<b>2022/23 £'000 Estimate</b>
Non HRA	175,275	198,663	268,724	155,900	90,260	42,537	21,471
HRA	42,154	55,318	42,051	45,335	30,204	26,500	21,991

	<b>Ratio of Financing Costs to Net Revenue Stream</b>						
	<b>2016/17 Actual</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
Non HRA	5.7%	4.8%	7.4%	8.5%	9.1%	9.2%	9.2%
HRA	14.7%	17.2%	15.7%	17.0%	18.2%	18.1%	17.7%

	<b>Capital Financing Requirement</b>						
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
Non HRA	578,193	713,745	912,923	1,010,136	1,031,118	1,000,014	969,093
HRA	272,091	298,705	311,347	326,238	324,860	317,872	304,367
<b>Total</b>	<b>850,284</b>	<b>1,012,450</b>	<b>1,224,270</b>	<b>1,336,374</b>	<b>1,355,978</b>	<b>1,317,886</b>	<b>1,273,460</b>

	<b>Gross Borrowing</b>						
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
Borrowing	746,913	866,291	1,031,068	1,246,110	1,361,211	1,382,609	1,347,891

The Prudential Code states:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.”

The Head of Finance reports that the Council can meet this requirement in 2017/18, and it is expected to do so for the future years, as outlined, taking into account current commitments, existing plans, and the assumptions in this report.

	<b>Authorised Limit for External Debt</b>					
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Operational Boundary	1,145,542	1,357,362	1,469,466	1,489,070	1,450,978	1,406,552
10% Margin	114,554	135,736	146,947	148,907	145,098	140,655
<b>Total</b>	<b>1,260,096</b>	<b>1,493,098</b>	<b>1,616,413</b>	<b>1,637,977</b>	<b>1,596,076</b>	<b>1,547,207</b>

	<b>Operational Boundary for External Debt</b>					
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowing	1,044,569	1,259,611	1,374,712	1,396,110	1,361,392	1,320,157
Other Long Term Liabilities	100,973	97,751	94,754	92,960	89,586	86,395
<b>Total</b>	<b>1,145,542</b>	<b>1,357,362</b>	<b>1,469,466</b>	<b>1,489,070</b>	<b>1,450,978</b>	<b>1,406,552</b>

## Contingent Liabilities

In addition to amounts recognised on the Balance Sheet, the Council was aware of the following contingent liabilities at 31 March 2017 which were formally recognised within the 2016/17 Annual Accounts and will be reviewed and updated as appropriate for the 2017/18 Annual Accounts:

- **Aberdeen Science Centre (formerly Satrosphere)**

The Council has agreed to provide a guarantee to the Bank of Scotland for the sum of £128,923 in support of an overdraft facility and card transactions until 31 March 2018.

- **Transition Extreme Sports Ltd**

The Council has agreed to provide a guarantee to the Bank of Scotland in respect of a loan of £37,139 and a maximum overdraft facility of £250,000 as well as a guarantee of £237,215 to Social Investment Scotland in respect of an 11 year loan which is due to be repaid by June 2025.

- **Landfill Sites**

The Council is responsible under environmental legislation for the ongoing monitoring, maintenance and ultimately capping and re-instatement of 3 closed landfill sites. The costs associated with two of these sites, Ness and Hill of Tramaud, have been accounted for through a mix of revenue and capital funding.

The third site at Mill of Dyce was previously operated by the Council under a lease. The Council purchased the site in 2012/13 and following an assessment of the environmental monitoring and reinstatement requirements works were carried out in 2014. The works are now complete with no further activity planned for the site.

- **Waste Disposal**

The Council has a long term contract with an external contractor for the disposal of all relevant waste arising in the City and the operation and maintenance of waste transfer stations, recycling facilities and landfill sites. The contract commenced in September 2000 and is due to run for 25 years.

- **Landfill Allowance Scheme (LAS)**

The Scottish Government had previously introduced a scheme under which Local Authorities were to be penalised for exceeding landfill tonnage targets. The penalties have never been imposed and it is expected that the regulations will be repealed in due course. However, until such a repeal is formalised there remains a potential liability on the Council.

- **External Organisations - Guarantor in relation to North East Scotland Pension Fund (NESPF)**

As the administering authority, the Council may admit a body to the Pension Fund as an 'admitted body' provided (i) the organisation can confirm they have sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest; and (ii) the Scheme employer is prepared to act as guarantor in the event the admitted body should cease to exist. If this situation was to occur and staff made redundant the staff over 50 years old would become entitled to immediate payment of their pension benefits. The Council has agreed a number of such guarantees to organisations that include Aberdeen Sports Village, Sport Aberdeen, Aberdeen Performing Arts, Aberdeen International Youth Festival, Aberdeen Heat and Power, Bon Accord Support Services and Bon Accord Care Ltd. The potential values guaranteed are subject to a range of actuarial assumptions.

- **Sport Aberdeen**

The Council agreed to provide a bank guarantee to Sport Aberdeen to a maximum of £5 million over a 5 year period for investment in Council leisure facilities, as approved at the 7 June 2016 Finance, Policy and Resources Committee. There is currently a guarantee being drawn up for an RCF facility for £1.4 million for Sport Aberdeen.

- **SEEMIS Group LLP**

The Council has agreed to fund any additional pension liability payments arising from its membership of the SEEMIS organisation (the provider of our schools' Management Information System). To date there has been no call on the guarantee.

- **Scottish Child Abuse Enquiry**

The Scottish Child Abuse Inquiry is a national enquiry which was set up on 1 October 2015. The Council recognises a potential for claims as a result of this inquiry but there are no specific claims at this time.

### **Additional Contingent Liabilities**

- **Strategic Transport Fund**

Section 75 agreements (developer obligations) are frequently sought by the Council in relation to the award of planning permission. These agreements are entered into as they are considered material to the decision to award planning permission.

The Supreme Court's recent judgement in relation to the Strategic Transport Fund (STF), which was funded through developer obligations, has significant implications for the Council which continue to be assessed by officers.

There are very few projects in the current capital programme which rely on developer obligations as funding. However, there are several large scale projects in development which had expected to rely on STF funding. Delivery of these projects is now at risk unless an alternative funding solution can be identified.

- **Integration Joint Board (IJB)**

The IJB is responsible for the strategic planning of the functions delegated to it by Aberdeen City Council and NHS Grampian. The Aberdeen City IJB Integration Scheme provides the framework in which the IJB operates including information on funding and what should happen if the IJB is projecting to overspend its budget at the year-end. Whilst steps will be taken to address this ultimately the parties to the arrangement may be potentially liable should the IJB overspend.

- **Our Generation – Solar Panels**

A contractual dispute exists in relation to this contract which may give rise to a future financial liability.

- **3<sup>rd</sup> Don Crossing**

It is recognised that claims may be received in relation to these projects which could give rise to a future financial liability.

## APPENDIX 4

<b>General Fund Revenue Budget - Movement Reconciliation</b>		
	<b>£'000</b>	<b>£'000</b>
<b>Staffing</b>		
Pay award	5,170	
Teachers Pay Award	3,052	
Staff Increments	2,737	10,959
<b>Contractual/Inflationary</b>		
Unitary Charge	1,421	
Apprenticeship Levy	10	
Growth on energy	763	
Growth in rates payments	330	
Growth in water rates	31	
Grampian Valuation Joint Board - increase	32	2,587
<b>Other Movements from 2017/18</b>		
Procurement saving not allocated to Services	2,934	
Vacancy Factor & Other Movements	(691)	
DEM Carry Forward (17/18 only saving)	750	
Remove historic income budgets	836	
Family Support Center at HMP	(32)	
Trading surplus increase	(147)	3,650
<b>Movements Due to Election Cycle</b>		
Removal of Local Government Elections	(348)	
Community Council Elections in 2018/19	25	(323)
<b>Other Additions to 2018/19</b>		
Big Noise Torry (per 5 year plan agreed at committee)	30	
Expansion of early years	1,832	
Capital Financing Costs	2,000	
Zero Waste Strategy - updated profile	145	
Funding to IJB - Living wage	2,519	
Funding to IJB - reduced in line with ACC funding	(832)	
Centre of Excellence	150	
Balgownie Rates	200	
Insurance	320	
City of Culture	500	
Roads Maintenance £10m investment	500	
AECC - Contractual	300	
UNICEF Child Friendly City	25	
Other	92	7,781
<b>Funding reconciliation</b>		
General Revenue Grant	21,002	
Non Domestic Rates	(22,254)	
Council Tax	(1,404)	(2,656)
<b>STC Decisions 9th Feb 2018</b>		
3rd Party Spend & Contract Renewal	(6,000)	
Migration to Interim Transitional Structure	(10,378)	
Assets Review	(737)	(17,115)
<b>Total Movement</b>	<b>4,883</b>	<b>4,883</b>

**APPENDIX 5**

<b><u>Options 2018/19</u></b>			
<b>Commercial Income Review</b>	<b>Full Year</b>	<b>Full / Part Year</b>	<b>Assumed for 2018/19</b>
	<b>£'000</b>		<b>£'000</b>
General 3% increase fees and charges	850	1.0	850
Museum & Galleries	300	0.5	150
Corporate Advertising	300	0.5	150
School Lettings	100	0.5	50
Car Parking Options	438	1.0	438
			<b>1,638</b>
<b>Council Tax Increase</b>			<b>£'000</b>
2017/18 - Budget			111,576
2018/19 - Budget			111,759
2018/19 - New Properties			1,221
2018/19 Budget + New Properties			112,980
	1%	Council Tax Increase	1,130
	2%	Council Tax Increase	2,260
	3%	Council Tax Increase	3,389
	4%	Council Tax Increase	4,519
	5%	Council Tax Increase	5,649

## APPENDIX 6

<b>Committee Decisions Referred to Budget Process</b>				
	<b>2018/19</b>	<b>Committee</b>	<b>Committee Date</b>	<b>Reference</b>
	<b>£'000</b>			
Greyhope Bay - grant award	20	Communities, Housing & Infrastructure	29th August 2017	CHI/17/202
Electric Vehicle Charging	54	Communities, Housing & Infrastructure	29th August 2017	CHI/17/059
Reclaiming Social Work - Revised Staffing (Saving)	(300)	Education & Children's Services	25th January 2018	ECS/18/011
LED Lighting in Parks	110	Finance, Policy & Resources	20th September 2017	CHI/17/008
Maintenance of Paths in Parks	5	Finance, Policy & Resources	20th September 2017	CHI/17/008
Gaps in Public Transport Network	132	Finance, Policy & Resources	20th September 2017	CHI/17/171
Nuart (3 years)	100	Finance, Policy & Resources	1st December 2017	CHI/17/266
Great Aberdeen Run (2 years)	150	Finance, Policy & Resources	1st December 2017	CHI/17/266
Sale of Pitmedden Road will result in loss of revenue income	106	Finance, Policy & Resources	1st December 2017	CHI/17/276
Lochside Transport	110	Finance, Policy & Resources	1st December 2017 & 1st February 2018	ECS/17/070 & CHI/17/317
External Partnership Activity	4	Finance, Policy & Resources	1st February 2018	CHI/17/320
Towards a Fairer Aberdeen - Provision of Meals to Children during School Holidays	50	Finance, Policy & Resources	1st February 2018	CHI/17/322
	<b>541</b>			