

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	5 March 2019
REPORT TITLE	General Fund Revenue Budget 2019/20 to 2023/24; General Fund Capital Programme 2019/20 to 2023/24
REPORT NUMBER	RES/19/201
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Jonathan Belford
TERMS OF REFERENCE	1 and 2

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 2019/20 and a medium-term financial forecast for the following four years; and
- (ii) The General Fund Capital Programme for 2019/20 to 2023/24.

1.2 These budgets are based on expenditure and income estimates prepared by the Council and reflect Scottish Government funding and information contained within the Scottish Government Local Government Finance (Scotland) Settlement 2019-20 letter dated 17 December 2018 (Finance Circular No. 8/2018). Figures have been updated to take account of the changes announced on 31 January 2019 by the Cabinet Secretary for Finance and the Constitution.

2. RECOMMENDATION(S)

It is recommended that Council:

2.1 Balance Sheet Recommendations

2.1.1 Note the projected balance sheet position including the reserves as at 31 March 2019, shown at Appendix 1;

- 2.1.2 Approve the General Fund Capital Programme as attached at Appendix 7, which increases borrowing levels in the short term, and signals reducing borrowing requirements in future years;
 - 2.1.3 Delegate authority to the Chief Officer – Capital to approve business cases for the purposes of Procurement Regulation 4.1.1.2 and undertake all necessary procurement exercises to deliver the Early Learning and Childcare expansion programme in accordance with the principles of the specific Capital Grant award, within an initial cost estimate of £15m and, following consultation with the Head of Commercial and Procurement Services, enter into any necessary contracts.
 - 2.1.4 Instruct the Chief Officer – Capital in relation to any other actions required on projects contained within the General Fund Capital Programme;
 - 2.1.5 Consider the capital projects described in Appendix 9 which are not currently included in the General Fund Capital Programme, and instruct the Director of Resources on any action to be taken;
 - 2.1.6 Approve the use of the 2018/19 Construction Inflation budget to support the City Centre Regeneration and Art Gallery Projects as detailed at paragraph 3.112 in the report, with the remainder being set aside for safety and security measures across the property estate;
 - 2.1.7 Approve the creation of a single Capital Contingency budget, comprising project specific contingencies currently included in initial cost estimates from which all contingencies will be drawn;
 - 2.1.8 Approve the use of the AREG receipt being applied to the Energy Centre project, located at the new event complex;
 - 2.1.9 Delegate authority to the Chief Officer – Corporate Landlord to negotiate and conclude terms for the sale of the existing AECC building (excluding the arena and adjoining land), as referred to in paragraph 3.107;
 - 2.1.10 Instruct the Director of Resources to soft market test possible options on the future of the investment property portfolio, as referred to in paragraph 3.108, and report back to the City Growth and Resources Committee;
 - 2.1.11 Approve the Prudential Indicators as attached at Appendix 8 to this report; and
 - 2.1.12 Approve the recommended use of reserves and Reserves Policy for 2019/20 as detailed in Appendix 3.
- 2.2 Medium-Term Financial Projections
- 2.2.1 Note the forecast medium-term financial projection for the period ending 2023/24 as shown in paragraph 3.17.

2.3 Revenue Budget Recommendations

- 2.3.1 Note that the conditions outlined by the Scottish Government within the Local Government Finance Settlement for 2019/20 are met by the proposals set out in the report;
- 2.3.2 Approve the use of various savings options to set at least a balanced budget for financial year 2019/20, having taken into account the following;
- a) The Budget Model as contained in paragraph 3.29 that identifies a funding shortfall of £41.2 million for 2019/20;
 - b) The forecast use of General Fund reserves in 2018/19 and the Reserves Strategy;
 - c) The Prudential Indicators and impact of the General Fund Capital Programme on revenue expenditure;
 - d) The savings options and cost of implementation put forward in Appendix 5 and Fees and Charges proposals in Appendix 10; and
 - e) The revenue items referred to the budget process, as shown in Appendix 6.
- 2.3.3 Approve the level of funding for the Aberdeen City Community Health & Social Care Integration Joint Board (IJB) in 2019/20 to meet the conditions of the Scottish Government Financial Settlement, described in paragraphs 3.92 to 3.96, and to note that it will be for the IJB itself to determine how it will balance its budget;
- 2.3.4 Approve that funding in relation to Free Personal Care for people aged under 65 and School Counselling (mental health) announced by the Scottish Government, which is not yet distributed, is allocated to the IJB when notified by the Scottish Government;
- 2.3.5 Approve the fees and charges for the Aberdeen City Community Health & Social Care IJB, as shown in Appendix 10;
- 2.3.6 Approve the level of funding for the Council's other group entities, in 2019/20 with reference to paragraph 3.88; and
- 2.3.7 Instruct the Chief Officer – Finance to recover the full costs associated with being the Administering Authority of the North East Scotland Pension Fund from the Pension Fund;

2.4 Taxation Recommendations

- 2.4.1 Approve a Band D equivalent Council Tax rate, with effect from 1 April 2019;

- 2.4.2 Impose and levy Council Tax assessments for the period 1 April 2019 to 31 March 2020 on all chargeable dwellings in Aberdeen City to be paid by the persons liable therefor under the Local Government Finance Act 1992, as amended by the Local Government etc. (Scotland) Act 1994;
- 2.4.3 Note that the Council implements revisions to National Non-Domestic Rates as defined by the Scottish Government within the relevant Finance Circulars, with effect from 1 April 2019;
- 2.4.4 Impose and levy Non-Domestic Rates assessments for the period 1 April 2019 to 31 March 2020 on all occupiers in Aberdeen City to be paid by those liable; and
- 2.4.5 Note the Scottish Government commitment to look at changes to tax raising powers of Local Government during the remainder of the Parliament.

3. BACKGROUND

CURRENT FINANCIAL POSITION

2018/19 Revenue Position

- 3.1 At its meeting on 7th February 2019, the City Growth & Resources Committee considered the Council's Quarter 3 Financial Performance Report. In terms of the General Fund financial position, the report highlighted that there was a shortfall in income compared to expenditure and as such a draw on General Fund revenue reserves is likely to be required to cover that shortfall at the year end. This has been estimated to be £2.7m.
- 3.2 The Council has been advised throughout the year that it has been under significant pressure around the level of expenditure it is facing particularly around the obligations to looked after children. A key point in the report was the continuing uncertainty that remains, which is unusual at this time of the year because, for example the 2018/19 pay award for all staff has not yet been settled and it looks likely that it may be March at the earliest when the position becomes clear.
- 3.3 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 position took account of the forecast overall position, use of capital receipts held in the Capital Fund to pay for voluntary severance and early retirement costs, as well as to fund debt principal repayments.
- 3.4 The financial implications of cost and demand pressures in 2018/19, which are expected to continue in future years, have been included in the assumptions and baseline figures for 2019/20 and amount to £6.3m. This takes account of cost pressures in out of authority placements for children, fostering and kinship care allowances and the impact of the current market conditions where income budgets have been too ambitious.

- 3.5 The use of the General Fund revenue reserve in 2018/19 needs to be considered in the context of the risks that the Council faces and the Reserves Strategy. Ideally the value used in 2018/19 should be replaced in 2019/20 and as such the budget model for 2019/20 includes a cost pressure to add in a contribution to the General Fund reserve.

2018/19 Balance Sheet Position

- 3.6 The position at 31 March 2018 per the 2017/18 accounts showed the Council was worth £1.4 billion.
- 3.7 The projected balance sheet position at 31 March 2019 is shown in Appendix 1 and estimates the net worth of the Council will be maintained around £1.4 billion by the end of the year. The projected position excludes 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.
- 3.8 It provides information on the currently projected level of reserves and balances held by the Council at 31 March 2019 and incorporates the use of the General Fund reserve at £2.7m.
- 3.9 The annual credit rating assessment was undertaken by Moody's in November 2018 and maintained the Council rating at Aa3, with a stable outlook. Significant emphasis is given to the Balance Sheet in the review and it is essential that the Council continues to focus on the robustness and resilience of its Balance Sheet.
- 3.10 The level of debt the Council has is directly related to the capital investment programme, both of which are reflected in the Balance Sheet. Repaying debt is a statutory payment from revenue and the legal framework requires that the Council make payment of interest as a first call on the revenue income before all other expenditure. The credit rating provides confidence to the lenders who have invested in the Council that their money will be repaid.
- 3.11 The 2018/19 capital budget was revised with the addition of the Early Learning and Childcare (ELC) Programme, funding by the Scottish Government, and the digital programme financed through the Aberdeen City Region Deal. Both programmes are now being developed and detailed Business cases will be brought forward to the Council shortly.

MEDIUM-TERM FINANCIAL POSITION

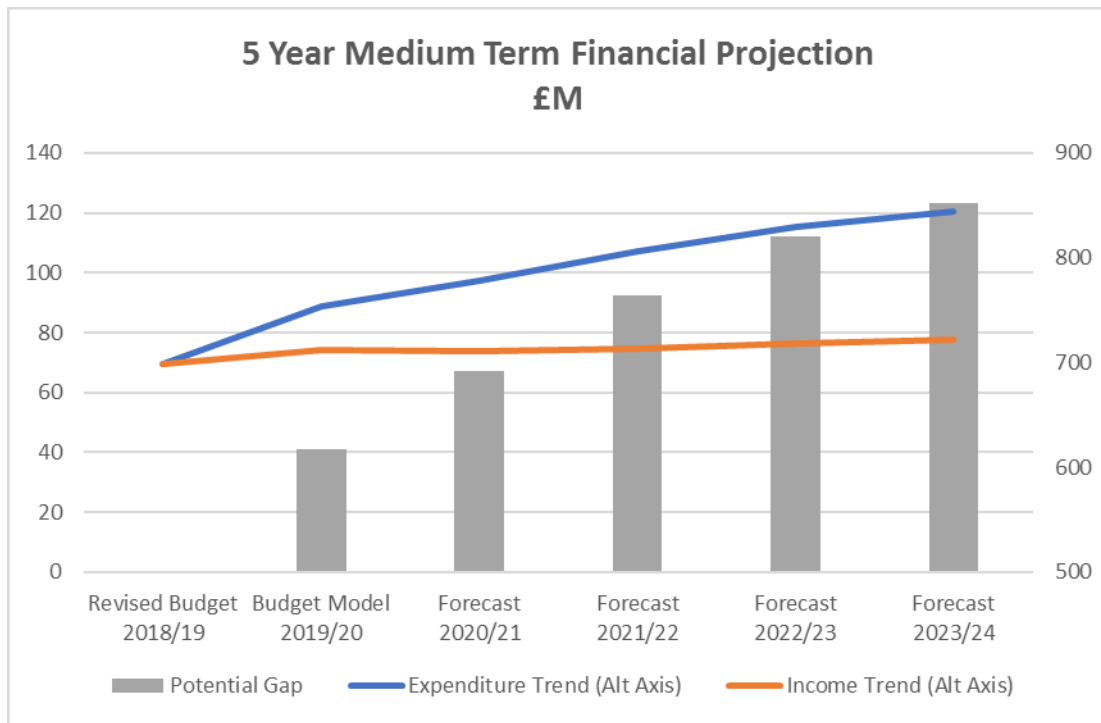
Revenue

- 3.12 Last year the Scottish Government, published its Medium-Term Financial Strategy. This provides an insight into the priorities over time of the Scottish Government and can help in assessing the impact that there might be on the Council individually – even if the Strategy does not go into that level of detail.
- 3.13 The observation from the Strategy is Scottish Local Government is not one of the protected areas of investment – except for the role it has in delivery of the national priorities around the expansion of Early Learning and Childcare, where funding will be directed. This means that the trend of reducing Scottish Government grant over the last eight years is expected to continue and is one of the key components in forecasting how the Council medium-term financial position will look.
- 3.14 The Cabinet Secretary for Finance and the Constitution has recently stated that he intends to bring forward a three-year funding settlement from 2020/21 onwards, and to develop a rules based framework for Local Government funding in partnership with COSLA. This will assist in the medium-term financial planning work that the Council relies on to plan as it will provide vital information and bring a level of certainty to the planning assumptions.
- 3.15 Scottish Local Government does continue to face increasing levels of direction when it comes to allocating the funding it receives. Recent examples include the expansion referred to above, the Pupil Equity Funding, to be provided to head teachers, and the grant conditions that require the Council to passport significant funding levels to the Aberdeen City Health and Social Care Partnership Integration Joint Board. Also, new legislation places on the Council additional legal duties and responsibilities which will impact upon existing resources, workloads and activities. One example for 2019/20 is:
- Continuing Care (Scotland) Amendment Order 2019, from 1 April 2019, increases the upper age limit for young people eligible for continuing care from 20 to 21.
- 3.16 The medium to long-term position must also take account of and address the affordability of pay and workforce planning challenges, including the future availability of people with the skills needed for the delivery of future Council services and managing the challenges of national pay bargaining, local pay models and conditions of services. The current pay offer from employers is a multi-year deal, if accepted, locking local government into 3% or higher pay rises per annum for the period to 31 March 2021. An integral part of pay awards in recent years has been the emphasis on the Scottish Local Government Living Wage lifting the lowest salaries more rapidly than other pay grades. This has an inevitable impact on the pay and grading structures and the impact is that more employees on an annual basis are benefiting from these increases. This drives even greater growth in the pay bill.

3.17 In forecasting the medium-term financial position, high level assumptions in terms of both costs and future funding levels have been made and key assumptions are set out in Appendix 2. The estimated gap that would exist between income and expenditure if no action was taken is shown below:

General Fund Revenue Budget 5 Year Position	Revised Budget 2018/19	Budget Model 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Service Expenditure						
Aberdeen H&SC Partnership	133,957	138,411	138,411	138,411	138,411	138,411
City Growth	11,654	11,784	11,836	11,888	11,940	11,993
Commissioning	31,612	31,945	32,340	32,750	33,161	33,571
Corporate	68,127	99,383	119,586	142,082	160,664	169,783
Customer	102,915	102,817	103,083	103,369	103,656	103,942
Governance	5,000	4,970	4,992	5,031	5,468	5,117
Operations	300,988	319,310	323,418	327,270	331,218	336,274
Resources	34,144	34,284	34,423	34,561	34,700	34,839
Strategic Place Planning	10,375	10,399	10,461	10,523	10,585	10,647
	698,771	753,303	778,548	805,885	829,802	844,576
Service Income						
Aberdeen H&SC Partnership	(48,962)	(48,962)	(51,399)	(53,014)	(53,825)	(53,825)
City Growth	(3,717)	(3,349)	(3,384)	(3,418)	(3,453)	(3,488)
Commissioning	(3,375)	(3,333)	(3,352)	(3,371)	(3,390)	(3,410)
Corporate	(28,581)	(35,448)	(36,475)	(37,533)	(38,617)	(39,725)
Customer	(66,109)	(65,580)	(65,728)	(65,875)	(66,022)	(66,169)
Governance	(2,070)	(2,030)	(2,049)	(2,068)	(2,087)	(2,106)
Operations	(74,887)	(85,925)	(86,198)	(86,603)	(87,008)	(87,413)
Resources	(28,325)	(28,325)	(28,477)	(28,628)	(28,779)	(28,930)
Strategic Place Planning	(3,390)	(3,090)	(3,152)	(3,214)	(3,276)	(3,338)
	(259,417)	(276,043)	(280,213)	(283,724)	(286,457)	(288,403)
General Fund Net Expenditure	439,354	477,260	498,335	522,161	543,345	556,173
Other Funding						
General Revenue Grant	(95,180)	(60,199)	(50,811)	(44,741)	(41,766)	(38,821)
Non Domestic Rates	(227,801)	(258,560)	(258,560)	(258,560)	(258,560)	(258,560)
Council Tax - Base	(116,373)	(116,373)	(117,281)	(121,862)	(126,353)	(130,910)
Council Tax - Additional Homes		(908)	(985)	(787)	(742)	(710)
Council Tax - Increase of 3%		0	(3,596)	(3,704)	(3,815)	(3,929)
Total Funding	(439,354)	(436,040)	(431,234)	(429,654)	(431,237)	(432,931)
Additional savings to be found in year	0	41,220	67,101	92,507	112,108	123,242
Annual Increase		41,220	25,881	25,406	19,601	11,134

3.18 The rising costs and limited change in total income forecast for the next five years demonstrates the unsustainability of the current costs associated with Council services and emphasises the need to make savings and reduce the cost base essential to the medium-term affordability of services. The annual, cumulative, impact of changes in the financial position is represented in the following graph:



Balance Sheet

Long-Term Borrowing

3.19 The forecast for the next 5 years for capital financing charges, based on the existing General Fund Capital Programme is shown in the table below:

Budget 2019/20 - Capital Financing Costs

	Budget 2018/19	Budget Model 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Principal & Interest	32,821	42,078	46,622	55,592	60,401	60,490
Change Annually		9,256	4,544	8,970	4,809	88

3.20 Built into the budget model for 2019/20 is the increase due to the scheduled repayment of the bond. A proportion of which is offset by forecast new income from the new event complex, which is also expected to grow as the development matures, which will mitigate the impact on the overall Revenue Budget.

3.21 Between 2018/19 and 2023/24, the total increase in repayment of debt is forecast to be £27.7m, which means that the total cost would represent 8.4% of the total revenue that the Council anticipates receiving in 2023/24 (£60.5m from table at 3.19 as a proportion of £721m, the sum of 'service income' and 'total funding' shown in table at 3.17). Further increasing long-term borrowing levels places increasing pressure on the Council that may be unsustainable and / or impact adversely on service delivery.

3.22 For example, if the total value of all cost updates and new projects described in Appendix 9 is approximately £31m. The additional cost would have to be borrowed. The cost of this annually, would increase current capital financing costs by approximately £1.5m once all the work has been carried out. Council will have to demonstrate the affordability and sustainability of its capital programme choices, through the Prudential Indicators.

Use of Reserves – Reserves Strategy

3.23 Reserves can be categorised as usable and unusable, The Usable Reserves of the Council are the accumulated funds that the Council has generated in the past, to provide resilience and options for the future. Usable reserves can be broken down further as follows:

- a) Earmarked – funds approved by committee to be set aside for known financial commitments or liabilities which will require to be settled in a future financial year. The set aside of funds de-risks the Council from future financial exposure without having to make in-year savings to meet the liability;
- b) Uncommitted – a sum set aside, not held for any specific purpose and likely to be utilised in the event of major unforeseen incidents or emergencies.
- c) Statutory – these funds are held under statute for specific purposes. The main two funds are the Capital Fund (only to be used for the repayment of debt principal and capital expenditure) and the Insurance Fund (for use in mitigating insurance payment related risks arising from claims).

3.24 In relation to the resilience that is provided by the Usable Reserves, it is vital that the Council has a robust Reserves Strategy to measure the risks that exist for the organisation, providing the assurance that there is the ability to act in the event of any unforeseen events and as well as preserving a robust position in relation to contingent liabilities that it might be exposed to in the future. These potential liabilities are regularly reviewed and updated in the quarterly monitoring reports, as well as disclosed in the annual accounts.

3.25 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.

A refresh of the Reserves Strategy “Finance Strategy – Revenue and Capital Reserves” is attached at Appendix 3. In setting its budget, the Council must take cognisance of the strategy.

- 3.26 In line with the Council estimated outturn for 2018/19 as reported to the City Growth & Resources Committee, it is expected that a sum will be drawn from the uncommitted reserve, which had a balance as at 31 March 2018 of £11.3m. Ideally the value of this would be replaced immediately in 2019/20, with a contribution from the General Fund budget.
- 3.27 The revised Reserves Strategy indicates that the Chief Officer – Finance recommends an amount of at least £10.5m should be held within the uncommitted reserve. This will require a minimum contribution to the General Fund reserve of £1.816m in budget proposals – based on the 2018/19 forecast.
- 3.28 The projected movement on reserves over the year is shown in the revised Reserves Strategy, at Appendix 3.

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- 3.29 The gap between forecast income and expenditure for 2019/20 is £41.220m. This is shown in more detail in Appendix 4 and key assumptions are described in the subsequent paragraphs.

REVENUE (INCOME)

- 3.30 The Council funds the services it provides through the following sources of income:
- a) General Revenue Grant (GRG) – from the Scottish Government and includes an allocation of ring-fenced funding;
 - b) Non-Domestic Rates (NDR) – forms part of the overall government funding distribution mechanism;
 - c) Council Tax – raised locally; and
 - d) Fees and Charges – raised locally (through charges for services and investment income).
- 3.31 The Scottish Government's Local Government Finance (Scotland) Settlement 2019-20 (Finance Circular No. 8/2018) dated 17 December 2018 provides details on both revenue and capital funding for the financial year 2019/20. This has been supplemented by the announcement on the 31 January 2019 by the Cabinet Secretary, when an additional £90m has been distributed to Scottish Local Government. For the Council this means an additional £3.161m in revenue grant funding for 2019/20.
- 3.32 Total core revenue funding for 2019/20 is £318.759m, excluding items still to be distributed – such as Free Personal Care for under 65's, School Counselling, Teachers induction funding and discretionary housing payments, all of which carry a cost burden when they are distributed. COSLA leaders will consider papers on 22 February 2019 in relation to the distribution of the Free Personal Care Funding.

- 3.33 The statutory requirement of the Council is to set a balanced budget, and to approve a rate at which Council Tax will be charged in the financial year. The conditions of the Scottish Government financial settlement include a cap on the increase of Council Tax of 3%, which was revised to 4.79% per the 31 January 2019 announcement. The value that can be generated from a 4.79% increase is £5.571m and means that the balanced budget can only be reached from identifying savings and / or generating additional income.
- 3.34 Conditions of the Scottish Government Financial Settlement place restrictions on what the Council can do with its funding, which has a direct impact on expenditure levels. Conditions for 2019/20 include:
- Maintaining overall national pupil-teacher ratio;
 - Continued support by Councils for probationer teachers;
 - New Health and Social Care monies (£160m for Scotland) to be passported through to support the Aberdeen City Community Health and Social Care Partnership Integration Joint Board; and
 - Specific grant funding has been included for the continued rollout of expansion of early learning and childcare.
- 3.35 The total income position of the Council, comparing the revised 2018/19 Budget with the 2019/20 Budget Model is summarised in the table below:

Core Funding	Budget 2018/19		Budget Model 2019/20		£'000 Change	% Change
	£'000	% of total	£'000	% of total		
SG Core Funding (Grant & NDR)	322,981	46%	318,759	45%	(4,222)	-1.3%
Council Tax	116,373	17%	117,281	16%	908	0.8%
Service Income	259,417	37%	276,043	39%	16,626	6.4%
	698,771	100%	712,083	100%	13,312	

- 3.36 The above movement can be explained as follows.

Income - Change 2018/19 to 2019/20	£'000	Note
General Revenue Grant - 18/19 redetermination	(2,025)	1
General Revenue Grant - 19/20 settlement	(32,956)	2
Non Domestic Rates - 19/20 settlement	30,759	2
Council Tax	908	3
SG Specific Grants (Service Income)	15,300	4
Customer Fees & Charges (Service Income)	1,326	4
Total Change	13,312	

Note 1 – Reduction in funding due to a higher level of income expected in 2018/19 budget for funding that has been announced during the year. Any similar additional funding announced in 2019/20 is estimated to include additional cost therefore has not been included.

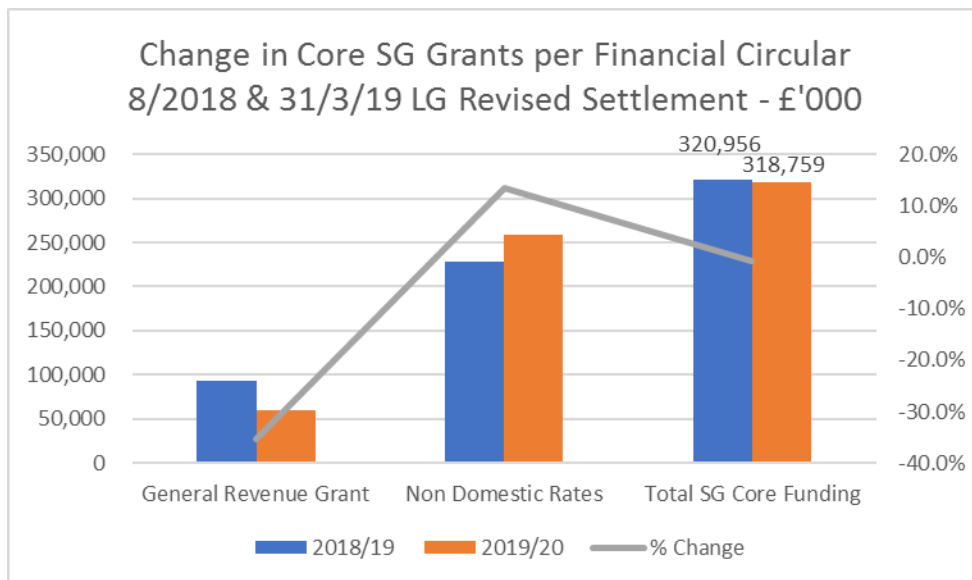
Note 2 – The 2019/20 settlement for the Council reflects a significant change in the value of Non-Domestic Rates income that will be collected in Aberdeen, with the adjustment being made to the General Revenue Grant. The net impact is a reduction of £2.197m in income – a value in 2019/20 of £318.759m. This includes a sum of £3.161m announced on 31 January 2019.

Note 3 – The expected increase income because of a rise in the council tax base, a 0.75% increase in the number of properties.

Note 4 – Service Income. Increases in specific revenue grants from the Scottish Government, including £11.9m for the expansion of Early Years and Childcare; £0.5m contribution to the full year Annual Service Payment for Lochside School; and £2.9m for funding available through the Barnett formula, after a change made by UK Treasury, to partially fund the increase in teachers’ employers pension contributions. Other fees and charges and customer receipts have increased because of additional income expected from the new event complex, offset in part by reduced income in other areas to take account of current year income experience.

General Revenue Grant and Non-Domestic Rates

3.37 The Scottish Government’s Local Government Finance (Scotland) Settlement 2019-20 (Finance Circular No. 8/2018) dated 17 December 2018 provides details on both revenue and capital funding for the financial year 2019/20. This was further updated by the Cabinet Secretary for Finance and the Constitution on 31 January 2019, with the distribution of an additional sum of £90m to the whole sector. The chart below shows the change in grant funding in cash terms from 2018/19 to 2019/20 (excluding budgeted redeterminations in 2018/19 referred to above):



- 3.38 The overall Scottish Government grant is reducing (taking account of both General Revenue Grant and Non-Domestic Rates) in comparative terms by 2.1%, after taking account of the new funding obligations placed on the Council, for example the passporting of £4.5m of funding in the settlement to the Aberdeen City Health and Social Care Partnership IJB.

Taxation Powers

Non-Domestic Rates

- 3.39 In terms of Non-Domestic Rates, the Finance Circular states that the poundage rate has been provisionally set at 49.0p for 2019/20 (an increase from 48.0p in 2018/19). Provisionally the Large Business Supplement will remain unchanged at 2.6p and transitional relief will continue in 2019/20 and through to 2020/21 for hospitality properties (with rateable value up to £1.5m in 2019/20) and offices in Aberdeen City and Aberdeenshire. The level of the cap on annual bill increases will continue to be 12.5% real terms for eligible properties.
- 3.40 A new Non-Domestic Rates relief is proposed for all new fibre lit on or after 1 April 2019 for a 10-year period, up to 31 March 2029.
- 3.41 The Scottish Budget confirmed that the Government no longer intends to take forward the proposed power for Councils to levy a Non-Domestic Rates supplement as outlined in recommendation 5 of the Barclay Review.
- 3.42 The report recommends that the Council note that the changes outlined in the Financial Circulars will take effect from 1 April 2019.
- 3.43 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. 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. There is no local scheme in place in the city in 2018/19 and no proposal in the budget for 2019/20 that a relief scheme be reintroduced or implemented.

Council Tax

- 3.44 In calculating the Council Tax figures, the following assumptions have been made:
- Collection rates will be maintained at 2018/19 levels; and
 - The number of Band D equivalent properties has been increased by 0.75% such that projected income has increased by £0.908m

- 3.45 The Finance Circular states that 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 continued flexibility to increase council tax by up to 3%. This has been revised as part of the announcements made on 31 January 2019 by the Cabinet Secretary, and an increase of up to 4.79% is now permitted for 2019/20.
- 3.46 The current Band D value for Aberdeen City is £1,267.30. The current Band D Scottish average is £1,208.
- 3.47 The impact of percentage increases in Council Tax by Band (excluding water and waste water) is shown below:

Council Tax Band	2018/19 Council Tax Charge	Indicative 2019/20 Charge if percentage increase applied (rounded to nearest £)				
		1.00%	2.00%	3.00%	4.00%	4.79%
Band A	£ 844.87	£ 853	£ 862	£ 870	£ 879	£ 885
Band B	£ 985.68	£ 996	£ 1,005	£ 1,015	£ 1,025	£ 1,033
Band C	£ 1,126.49	£ 1,138	£ 1,149	£ 1,160	£ 1,172	£ 1,180
Band D	£ 1,267.30	£ 1,280	£ 1,293	£ 1,305	£ 1,318	£ 1,328
Band E	£ 1,665.09	£ 1,682	£ 1,698	£ 1,715	£ 1,732	£ 1,745
Band F	£ 2,059.36	£ 2,080	£ 2,101	£ 2,121	£ 2,142	£ 2,158
Band G	£ 2,481.80	£ 2,507	£ 2,531	£ 2,556	£ 2,581	£ 2,601
Band H	£ 3,104.89	£ 3,136	£ 3,167	£ 3,198	£ 3,229	£ 3,254

Note: Figures exclude water supply and waste water collection charges collected on behalf of Scottish Water

Council Tax	2018/19	Estimated Additional Income Collected				
	£'000	£'000	£'000	£'000	£'000	£'000
Collectable	116,373	1,164	2,327	3,491	4,655	5,571

- 3.48 A 4.79% increase in Council Tax would generate £5.571m of additional income to the Council to fund the services it provides. The decision to increase Council Tax is part of the budget setting process and is required as part of considering this report.

Other Tax Raising Powers

- 3.49 In his letter of 31 January 2019 to COSLA the Cabinet Secretary for Finance and the Constitution outlined changes to Local Government tax raising powers that the Scottish Government has now committed to look at before the end of the Parliament. These include:

- To consult, in 2019, on the principles of a locally determined tourist tax, prior to introducing legislation to permit local authorities to introduce a transient visitor levy, if it is appropriate for local circumstances;

- To support an agreed amendment from the Scottish Greens to the Transport (Scotland) Bill that would enable those local authorities who wish to use such a power, to introduce a workplace parking levy. Scottish Government support will be contingent on the exclusion of hospitals and NHS properties; and
- To devolve Non-Domestic Rates Empty Property Relief to local authorities in time for the next revaluation.

3.50 It is clear from the letter that the enactment of these changes will take time and as the powers are not available to the Council at this time it has not sought to incorporate any benefit from these changes into its 2019/20 Budget Model or options for consideration. It will however participate in the development and consultation on these powers and report on these as they progress.

Service Income

Specific Grants and Recharges

- 3.51 The council receives a significant amount of funding during the year from specific grants (for example DWP funding for Housing Benefits and funding from the Scottish Government for Early Learning and Childcare and Pupil Equity Funds) and recharges other Council accounts for work done (for example to the Housing Revenue Account and Capital Programme).
- 3.52 The income from these programmes of work and specific activities is reviewed regularly and takes account of changes that are expected when planning the budget. A significant change in 2019/20 includes the expansion of the Early Learning and Childcare, with additional income £11.9m having been announced in the financial settlement. The impact of additional income is offset by the commitment to additional expenditure.

Fees and Charges

- 3.53 Fees and charges raised locally enable the Council to fund some of the services it provides.
- 3.54 At its meeting on 27 November 2018, the City Growth and Resources Committee considered and approved the Service Income policy for implementation on 1 January 2019. The policy set out the following:
- The purpose and objective of charging for Council services;
 - Responsibilities of officers to comply with the policy;
 - A structured approach to setting charges, concessions and subsidies – related to recovering the cost of services, and the outcomes/priorities derived from those services; and
 - Specific roles and responsibilities for administering charges.

- 3.55 The policy set out a framework for setting fees and charges and included:
- Charges will be set annually as part of the budget process;
 - Councillors will take a lead role in setting aims and priorities for charges and concessions; and
 - Clear corporate principles and service objectives will be set out for how charges and concessions are applied.
- 3.56 The policy highlights that the Council should base its decisions on clear information of service costs and subsidies, with this based on an understanding of the full costs of delivering a service, including overheads and the costs of related services. This will ensure Council understands the extent to which charges recover costs and hence demonstrates that they are reasonable and reflect the actual costs of delivery. It is also important to understand the extent to which public money is used to subsidise services.
- 3.57 The policy set out principles for applying a subsidy to types of charges depending on that charges policy category:

Policy Categories:		
E	Essential for well-being	Will be considered for subsidy
C	Contributes to well-being	Will be considered for subsidy whilst balancing the importance of cost recovery
S	Standard service	Subject to the principle of full cost recovery
T	Trading service	Subject to the principle of making an appropriate trading surplus for redirection to other priority services

- 3.58 Finally, the policy looks at costing and pricing mechanisms, stating that the Council will consider the most effective pricing mechanism to encourage cost recovery with due consideration to the other principles. Pricing can be based on:
- Cost based pricing – to recover all or a proportion of the costs of the service;
 - Competition based pricing – to reflect market rates; and
 - Demand based pricing – to promote, or to control and limit uptake.
- 3.59 Proposals for 2019/20 have been undertaken in the context of the Service Income Policy where possible, with details and recommendations set out in Appendix 10.
- 3.60 It is important to highlight that the Council must be proactive in converting the levying of fees and charges into actual cash collected. To this end, a Corporate Debt Recovery Policy was also considered and approved by the City Growth and Resources Committee on 27 November 2018. This policy sets out the general principles to be applied in relation to income collection and corporate debt recovery across all services provided by the Council.

REVENUE (EXPENDITURE)

3.61 If no action was taken, the movement in expenditure between 2018/19 and 2019/20 would amount to £54.532m and can be analysed as follows:

	2018/19	2019/20	Change
	£'000	£'000	£'000
Staff Costs	273,129	295,569	22,439
Premises Costs	50,880	53,492	2,612
Administration Costs	8,877	8,877	0
Transport Costs	8,839	8,839	0
Supplies & Services	102,868	103,374	506
Commissioned Services	145,945	161,393	15,448
Transfer Payments	75,410	79,680	4,270
Capital Financing Costs	32,822	42,078	9,256
	698,771	753,303	54,532

3.62 Some of the main movements are:

£12m	Staff Pay Award broadly based on 3.5% increase in 2018/19, but capped at £80,000 salary when a fixed amount of £1,600 will apply; 3% increase for 2019/20, conditions around the local government national living wage; and different national conditions for teachers - for which some additional funding will be provide by the Scottish Government.
£2.6m	Staff Increments.
£3.7m	Teachers' Employers Pension Contributions-part funded as described in Income section above.
£9.3m	Capital Financing Charges-offset in part by additional income from the new event complex described in Income section above.
£1.1m	Annual Service Payments for 3R's schools and Lochside Academy.
£11.9m	Early Years and Childcare Expansion revenue cost increases-matched by specific grant funding from Scottish Government.
£4.5m	Health and Social Care conditions of grant, value to be passported to the IJB.
£3.1m	Children's Services, cost pressures arising from 2018/19, including out of authority placements, foster and kinship carer costs and direct payments.

3.63 After adjusting for the increased level of income that is expected overall (£13.312m as per paragraph 3.35) then the budget gap for 2019/20 is £41.220m.

BALANCING THE BUDGET

- 3.64 Options with a total of £44.7m (including a 4.79% increase in Council Tax) have been identified to mitigate this deficit and are detailed in Appendix 5 and are summarised as follows:

Category	Option Value £'000
Cost of Assets	1,420
Spending Categories	12,534
Changes to Service Delivery	20,711
Cost of Staffing	1,160
Fees & Charges Income	3,345
Council Tax	5,571
Total	44,741

Cost of Assets

- 3.65 The total value of savings of £1.42m is predominantly around the rationalisation of the Council property estate and includes savings from the closing of properties that currently deliver services, such as community learning centres; and increasing the utilisation of other properties, such as Marischal College.
- 3.66 There are several projects on the options list noted with a nil value in relation to revenue savings at this time. The current practice is that when an asset is closed the revenue costs are transferred to the estate team until such time as a disposal (or demolition) takes place. Inclusion of these as part of the budget setting decisions for 2019/20 means that work can be carried out to market these properties and work towards finalising a sale, which will only then release a revenue savings, anticipated in 2020/21 or beyond.

Spending Categories

- 3.67 The spending categories capture the wider range of goods and services, administrative and transport cost that the Council incurs, as well as payments to outside organisations. Options cover all aspects of this type of spend.
- 3.68 The options presented include reductions in grant funding to outside organisations, to the value of £1.899m.
- 3.69 The Council invest significantly in its group entities and other arms-length external partners and options within this budget report include a reduction in funding to all of them. A total reduction across 5 different organisations of £4.620m with an additional income from the IJB of £0.125m makes the total value of options £4.745m. More information is provided in paragraphs 3.92 to 3.96.
- 3.70 Recharges to the Housing Revenue Account are a common and appropriate means of the Council housing stock being managed and administered. Options to review those recharges have been prepared and amount to £0.13m.

- 3.71 Contract spend is a significant area of expenditure with a wide range of commodities and goods and services purchased annually by the Council. The value of £3.873m is expected to be achieved through the options presented to reduce the level of products purchased.
- 3.72 Improving the price the Council purchases those goods and services, through national frameworks, will yield savings of £0.034m.
- 3.73 There are options to review and reduce costs across many contracts, these have been categorised as contract management options. The value proposed is £1.853m and includes a proposal to utilise the distributed surplus by NYOP, the special purpose company engaged in the 3R's schools. The value of that option, £0.8m is one-off in nature as annual surpluses to this value will not be achieved. The funds must be distributed to a registered charity or charities and could provide a funding source in 2019/20 for monies currently paid by the Council to charities.

Changes to the level or approach to Service Delivery

- 3.74 The Council proposes to change/reduce the level of service in some areas and this includes roads services, grounds maintenance, libraries, youth work and community safety provision. In total the options amount to £4.618m.
- 3.75 Moving forward the council will rely on reducing the size of its workforce and reshaping it to fit with the digital future as well as to ensure services are affordable to the Council in the future. Changing service delivery will impact on the level of staffing across a wide range of services and options to a total value of £15.463m are proposed in the report.
- 3.76 Continued investment in transformation and the digital and technological changes requires the continued commitment to set aside funds to invest, and the Transformation Fund has a forecast balance at 31 March 2019 of £8.975m. Effective use of this Fund is essential to the delivery of the savings as a lot of the change relies on the ability to do things differently, streamline and have a smaller workforce. It is expected that proposals to commit the funds within the Transformation Fund will be considered in 2019/20.
- 3.77 Wherever possible, the Council aims to achieve any reduction in staff numbers via the voluntary severance/early retirement scheme and the management of vacancies is of importance in reducing the expenditure on staff. It is anticipated that approximately 260 VSER applications will be required.
- 3.78 The Council will use capital receipts to pay for the voluntary severance / early retirement scheme in 2019/20 and limit external recruitment to manage vacancies.

Cost of Staffing

- 3.79 The pay bill for the Council is the largest single component of its expenditure, and the pay for staff is a mixture of local and national conditions. Reviewing local conditions of service could potentially achieve significant savings. The ability to work more digitally and flexibly are options to enable the reduction in staff costs including travel costs, in line with the principles of the revised travel policies of the Council.
- 3.80 Any proposals to change the level or approach to service delivery or to change Council terms and conditions will require full consultation with all affected stakeholders, including partner agencies, service-users, staff and trade unions and the wider community and will be taken forward in a collaborative manner with a view to minimising any detrimental impact on the workforce.

Fees and Charges

- 3.81 The Council has a wide range of fees and charges for services, with some of these at the discretion of the Council whilst others are statutory, with prescribed prices applying. This offers the Council some opportunity to adjust the level of income it receives based on the prices that it sets. This is referred to above at paragraphs 3.53 to 3.60. A total of £1.682m is anticipated from uplifting the prices for existing fees and charges next year.
- 3.82 The options to support the budget include exploring and introducing a range of new charges, and the most significant of which is the domestic household garden waste charge at £0.68m, and schemes have been successfully introduced by other Scottish Councils, including Edinburgh, Angus, Moray and Perth & Kinross. In total the Council is seeking new income of £1.753m in 2019/20.

Council Tax

- 3.83 As described earlier in the report (paragraph 3.48) the additional income in 2019/20 if the Council was to apply the maximum increase (4.79%) permitted by the Scottish Government is £5.571m.

Summary

- 3.84 The use of all these options will move the 2019/20 budget to a £3.521m surplus, or contribution to the General Fund Reserve. Reference should be made to the earlier comments about the Reserves Strategy, and ideally the General Fund requires a contribution of no less than £1.816m to reinstate to the recommended level the General Fund Reserve that are estimated to be used in 2018/19, see paragraph 3.27.

Referrals from Committees - items not included in the revenue budget

- 3.85 Appendix 6 provides details of items which have not been included in the 2019/20 revenue budget figures. These items, totalling £3.352m, relate to revenue expenditure or loss of income and may be based on the impact of capital projects or transactions.

3.86 Should Council wish to accept all or some of these items into the 2019/20 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, Joint Ventures and Associates

3.87 The Council has several subsidiaries, joint ventures and associates as defined by accounting requirements. Whilst these organisations 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. In addition to funding provided by the council, these arm length bodies also have discretionary and statutory fees and charges as a further source of income.

3.88 The table below provides details of the funding levels currently included in the 2019/20 budget model for these organisations, along with the values if the options available for 2019/20 are taken. Notes, thereafter, describe the recommended actions in relation to the Group entities, if relevant:

Organisation	2017/18 Total Turnover £m	Funding 2018/19 £m	Budget Model 2019/20 £m	Budget after Options 2019/20 £m	Funding Change from 2018/19 £m %	Funding Change to Total T/over %
Bon Accord Care (S) (ex K'wells)	n/a	26.750	26.750	See note below		
Sport Aberdeen (S)	12.151	6.026	6.026	3.476	(2.550) (42.3)	(21.0)
Aberdeen Sport Village (JV)	5.847	778	778	678	(100) (12.9)	(1.7)
Integration Joint Board (JV)	n/a	84.995	84.995	87.579	2.584 3.0	n/a
Grampian Valuation Joint Board (A)	n/a	1.677	1.677	See note below		

Bon Accord Care

3.89 Bon Accord Care is a subsidiary and is funded through the IJB, which is required to indicate the value of the services to be provided through the contract and is therefore included for information only. The impact of an option to reduce IJB funding, see below, may have a direct impact on Bon Accord Care.

Sport Aberdeen

- 3.90 Sport Aberdeen is a subsidiary and currently receives funding for the provision of a range of leisure facilities across the city. The proposals set out in this report significantly impact on the value of funding that would be awarded to the organisation. The ultimate decision on how that funding reduction was implemented would be taken by the Sport Aberdeen Board.

Aberdeen Sports Village

- 3.91 The Sports Village is a joint venture with the University of Aberdeen and this means that proposals by the Council to reduce funding will be matched by the University.

Aberdeen City Health and Social Care Partnership Integration Joint Board (IJB)

- 3.92 The IJB is a joint venture and is funded by both the Council and NHS Grampian (NHSG).
- 3.93 The IJB then directs the Council and NHSG to provide adult social care and health services for which it pays the Council and NHSG as appropriate. The costs the Council incurs in providing those services are included within the relevant services budget. This can be summarised as follows:

	Budget Model 2019/20 Net £m	Value of savings Options £m	Potential 2019/20 Funding Position £m
Estimated net cost of services provided by Aberdeen City Council	120.6	0	120.6
Less: Allocation to the IJB by the Council	(85.0)	1.9	(83.1)
Less: Changes per 2019/20 Council Financial Settlement affecting allocations to the IJB (see Note i)	(4.5)	0	(4.5)
Additional cost to be IJB	31.1	1.9	33.0
Represented by:			
Funding routed through the IJB via the NHSG financial settlement	31.1		31.1
Savings proposals to be agreed by IJB		1.9	1.9
Note i: The Scottish Government has announced £160m across Scotland that should be passported through to the IJB locally by Councils. To date only £118m has been distributed therefore when the final £42m is announced this will increase the Council allocation and will be in relation to funding for Free Personal Care for Under 65's and School Counselling (mental health) services, from which the Council expects to be provided funding to deliver services to schools. In addition, the Scottish Government has stated that there is 2.2% flexibility for Councils in the allocation they provide to IJB's, this amounts to £1.9m for the Council and is a budget option.			

- 3.94 The IJB meets on the 12 March 2019 to consider its 2019/20 financial position and medium-term financial strategy.
- 3.95 Funding included in the Council's General Revenue Grant that has to be paid over to the IJB amounts to £4.076m in relation to Health and Social Care Funding and £0.378m for implementation of the Carers (Scotland) Act 2016. A total of £4.454m representing new expenditure, and as note above, there is further funding that will be distributed with the same conditions.
- 3.96 The Council will be complying with the terms of the Financial Settlement by both passing funding onto the IJB as directed and in reducing funding by no more than the 2.2% of the current year funding allocation. It is recommended that other funding directed by the Financial Settlement, once distributed by the Scottish Government, is allocated to the IJB too and reflected in future monitoring report. This refers to the funding for Free Personal Care for Under 65-year olds and School Counselling for mental health funding, as noted in the table above.

Grampian Valuation Joint Board (GVJB)

- 3.97 Funding is as per the amount requisitioned by GVJB, based on its draft budget using the agreed share per constituent council (Aberdeen City 39%).
- 3.98 The value requisitioned by the GVJB has now been notified and amounts to £1.741m for 2019/20. The total sum, while higher than the sum identified in the budget model, can be funded without impacting on the Revenue Budget, as funding is yet to be distributed by the Scottish Government for the purposes of implementing the Barclay Review. It has been estimated that the distribution to the Council will be enough to meet additional cost of £0.064m.

BALANCE SHEET (CAPITAL INCOME AND EXPENDITURE)

Capital Income – Scottish Government Grant

- 3.99 The level of General Capital Grant provided by the Scottish Government is advised through the Local Government Finance (Scotland) Settlement 2019-20 (Finance Circular No. 8/2018) dated 17 December 2018. The General Capital Grant for 2019/20 is £27.671m, with a further £8.600m of specific grant available for Early Years Expansion programme and £0.374m for Cycling, Walking and Safer Streets (CWSS) projects.
- 3.100 The General Capital Grant includes a sum of £4.667m, which is a one-off payment of capital funding withheld from the 2016/17 local government financial settlement that is now being paid in full back to local government from Scottish Government.

- 3.101 Total Scottish Government capital funding is £27.671m, which includes the one-off payment of £4.660m reprofiled from 2016/17 settlement. The base capital grant (£23.011m) is a reduction of £0.666m (2.8%) compared to 2018/19.
- 3.102 COSLA leaders will consider proposals for the distribution of £50m across Scotland for Town Centres. The methodology recommended is expected to benefit cities and would be an additional capital grant for the year, the value estimated to be in the region of £1m to £2m.

Capital Income – Borrowing

- 3.103 Budgeted capital expenditure over the next five years is £481.507m, with associated funding, excluding borrowing, of £187.910m. The balance of £293.587m will require to be funded by borrowing.
- 3.104 Borrowing commits the Council to ongoing revenue costs over many years. It is therefore essential that borrowing is affordable and sustainable in future. The Council has invested heavily in the city infrastructure over the past few years which in turn has increased the level of borrowing and hence the ongoing revenue cost to the Council. It is important for future financial stability and sustainability that borrowing levels start to decrease. (see paragraphs 3.19 to 3.22)

Capital - External Funding / Receipts

- 3.105 The council currently uses capital receipts, as permitted by the Scottish Government, for the purposes of supporting transformation and specifically the reduction in the workforce. In the current year approximately £6m will be used to support the severance costs. The affordability of the revenue budget relies again on the costs of voluntary severance being met from capital receipts, therefore these are not available to fund the Capital Programme. Local government is not permitted to borrow to fund the cost of VSER payments.
- 3.106 External funding comes in several forms, examples include heritage lottery grants, Sustrans specific grants and developer contributions. A receipt, triggered by the Renewable Obligations Certificate (ROC) accreditation and finance from the UK Government for Vattenfall's European Offshore Wind Deployment Centre, was received recently from Aberdeen Renewables Energy Group (AREG) and has specific conditions. The money must be used for renewable projects in Aberdeen or for the promotion of the science and technology and diversification of the energy industry. To date £1.3m has been received and a further sum of up to £0.4m is subject to HMRC assessment. It is recommended the total amount received is used for the delivery of the Energy Centre at the new event complex, which complies with the conditions.

- 3.107 The Council has been approached by a prospective buyer for the existing AECC building (excluding the arena and adjoining land). As part of the overall financial model for the new facilities it was assumed that a total of £27m of receipts would be realised through the sale/redevelopment of the existing and new site and this sale will contribute towards this. It is therefore recommended that the Chief Officer – Corporate Landlord be authorised to negotiate and conclude terms for the sale of the existing AECC building (excluding the arena and adjoining land).
- 3.108 The Council has a large investment property portfolio which it has built up over many years and provides an income stream to the General Fund. The portfolio is often referred to as the Tenanted Non-Residential Property (TNRP) portfolio. The portfolio will need investment in the future as tenants move to ensure buildings meet new energy legislation and this is currently being looked at by officers to see what the potential impact may be. Across the United Kingdom at present there is a low level of strong rental properties for sale and therefore this would seem like an opportune time to soft market test the potential model for realising a fund that would allow an ongoing yield that could replace the current income stream. It is therefore recommended that the Director of Resources be authorised to soft market test possible options on the future of the portfolio.

Capital Expenditure

- 3.109 The General Fund Capital Programme proposed in Appendix 7 refers to the existing Programme, with recommendations to update cost estimates using the Construction Inflation budget included in the Programme for 2018/19 but not yet allocated. Additional allocation of funding in relation to the four primary schools has been incorporated and the level of borrowing and future reduction profile remains as is expected by Moody's, the credit rating agency for the Council, with approximately £30m of additional borrowing over the next five years. The level of borrowing is at a level deemed both affordable and sustainable as demonstrated by the Prudential Indicators at Appendix 8.
- 3.110 Many projects included within the Programme are legally committed and work has started, and in several cases is coming to an end. The projects are a mixture of ongoing investment in the infrastructure of the City and projects to facilitate operations.
- 3.111 Projects that are partially legally committed or where initial work is being carried out may require further Council decision before proceeding to full implementation to ensure the appropriate value of funding is affordable and available prior to commencement. Examples include roads projects for Berryden Corridor, South College Street and education projects to build four primary schools.

- 3.112 Construction costs have been updated in the Capital Programme. These include the Art Gallery development and the City Centre Regeneration projects, where a sum of £4.5m and £5.5m respectively should be added. The funding for these would come from the 2018/19 Construction Inflation budget line in the Programme that has not yet been allocated. The balance is also recommended to be set aside for Safety and Security projects in the property estate.
- 3.113 The Cruyff Court proposal, as discussed at the City Growth and Resources Committee on 7 February 2019 identified that external funding was available to increase the total project budget to £0.3m. This has also been updated in the Programme shown at Appendix 7.
- 3.114 The four primary schools have been updated to initial cost estimates of £25m per school, along with additional funding being anticipated in relation to a bid for capital grant from the Scottish Government for Torry primary and Developer Contributions for the Countesswells primary.

Referrals from Committees - items not included in the capital programme

- 3.115 A number of capital projects have been brought forward for consideration as part of the budget setting process and information has been provided to Councillors in relation to the business cases and justification for considering them as part of the future capital investment in the city. A summary of the projects is included at Appendix 9.

Impact on Balance Sheet of Budget Decisions

- 3.116 The result of the decisions Council takes in setting its budget will be reflected in the Council's Balance and Reserves, and the proposals in this report reflect the following impact on the Council.

Use of Reserves & Funds	Projected Balance at 31 March 2019 £m	(Budgeted Use) / Contribution to Reserves 2019/20 £m	Projected Balance at 31 March 2020 £m
<i>General Fund:</i>			
Earmarked	22.608	(8.975)	13.633
Uncommitted	8.684	2.700	11.384
<i>Housing Revenue Account:</i>			
Earmarked	0.308		0.308
Uncommitted	9.646		9.646
<i>Statutory Funds:</i>			
Capital Fund	7.680	(7.680)	0
Insurance Fund	1.339		1.339
City Improvement Fund	0.336		0.336
Lord Byron Fund	0.005		0.005
Total	50.606	(13.955)	36.651

4. FINANCIAL IMPLICATIONS

- 4.1 The level of useable reserves that the Council has, projected at 31 March 2019, means that there is no specific opportunity to draw one-off funding from reserves to balance the revenue budget.
- 4.2 Savings options totalling £44.741m (including 4.79% Council Tax increase) are presented for consideration by Council.
- 4.3 Council must approve savings options to a level whereby at least a balanced budget is achieved, £41.220m, and take account of the anticipated use of General Fund Reserves at the end of 2018/19 (£2.7m), and the revised Reserves Strategy that recommends no less than £10.5m as an uncommitted General Fund Reserve at the end of the financial year.
- 4.4 Approval of savings above this level will have a positive impact on the Council by, a) providing a buffer to mitigate the risk of further cost/demand pressures materialising; b) providing a buffer to mitigate the risk of savings options not progressing as expected; and c) assuming a) and b) do not materialise, by enabling the level of resources held to be increased which will improve overall financial sustainability.

5. LEGAL IMPLICATIONS

- 5.1 The Local Government Finance Act 1992 requires the Council to set its Council Tax for the next financial year before 11 March each year.
- 5.2 The Act provides that the amount set shall be sufficient to meet total estimated expenditure. This means that having taking account of expenditure, agreed savings and income from other sources, the level of Council Tax must ensure that a balanced budget is set by the Council.
- 5.3 The Council has a legal obligation to comply with the public sector equality duty and the Fairer Scotland duty. While preliminary impact assessments have been carried out, further work will be required to ensure the Council complies with these duties.

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	Assumptions and judgements used for budget model and options are very different from what the Council faces in	M	The latest and most up to date information has been used to calculate and shape the budget model and examples of where significant risk are shown

	<p>2019/20 leading to additional action having to be taken during the year.</p> <p>Poor financial sustainability</p> <p>Poor management of large and complex budgets.</p> <p>Non-delivery of savings options leading to overspends against budget.</p> <p>Variation in tender prices for capital projects, following procurement against the costs assumed at the time of project approval.</p> <p>Insufficient capital receipts to pay for voluntary severance costs that are assumed.</p>	<p>M</p> <p>L</p> <p>M</p> <p>M</p> <p>L</p>	<p>below in paragraphs 6.1.1 to 6.1.5 that will have to be monitored closely, with appropriate reporting and recommended action as the year progresses.</p> <p>Process in place for regular update of medium-term financial position including recognition of potential future liabilities</p> <p>Regular review of financial information by services and corporately by Elected Members.</p> <p>Savings options assessed in terms of deliverability.</p> <p>Use of suitably qualified staff or external body to quantify and review indicative project costs.</p> <p>Projected year end value of Capital Fund, based on capital receipts, makes the options affordable in 2019/20. Affordability beyond requires to be revisited as extent of capital receipts and values are uncertain in current climate.</p>
Legal	<p>The statutory duty to set Council Tax and a balanced budget is not achieved.</p> <p>Non-compliance with public sector equality</p>	<p>L</p> <p>L</p>	<p>Suitable recommendations are contained within this report to ensure this duty is complied with.</p> <p>Preliminary impact assessments have been</p>

	and Fairer Scotland duties		undertaken. More detailed impact assessments to be undertaken on a case by case basis as budget savings are advanced.
Employee	Workforce doesn't reduce to the extent that is required to achieve savings.	M	Continued action to manage posts and to redesign services within the financial constraints.
	Introduction of additional statutory duties will increase workloads	M	Continuing review of opportunities to reduce rework/overlap in workloads
Customer	There is a risk that customer complaints increase as a result of changes to service standards and during transition to digital solutions.	M	Communication and monitoring of change milestones to customers as determined by project plans.
Environment	None		
Technology	Failure to invest in and embed new technology an digital solutions will place savings options at risk.	H	Funds set aside in the Transformation Fund provide the means of securing and supporting the significant shift that is needed by the Council. Maintaining the unspent value as an earmarked reserve is critical.
Reputational	Failure to properly manage finances including the potential impact on the Council's credit rating.	L	Regular review of financial information by services, CMT and Elected Members throughout the financial year.
	Focus on cuts may have a negative impact on citizens' view of service delivery	M	Highlight positive changes achieved despite financial constraints

Examples of Financial Risks in relation to Assumptions and Judgements

- 6.1 In arriving at the above budget model for 2019/20 it is important that Council is aware of the risks associated with assumptions and judgements that have been made as they cover significant areas of Council expenditure and income. The impact of them being different from what the Council experiences next year could have a material impact on the budget. These need to be closely monitored during the year and reported with appropriate actions recommended. Key assumptions and judgements include the following:
- 6.1.1 Pay Award – at present there has been no agreed national pay award agreed for the current financial year, which means that both 2018/19 and 2019/20 contains assumptions around the actual cost. It is unlikely that this will be known with any certainty until at least March 2019 and therefore the budget has been based on the best information at this time, which includes the pay offer made on a multi-year basis by COSLA, which in general means a 3.5% increase from 1 April 2018 (cash cap of £1,600 for those earning more than £80,000); 3% from 1 April 2019; and 3% from 1 April 2020. Depending on the final agreement and conclusion of this matter the figures will remain estimated and the Council will retain a contingency to fund the pay award, which may have to be revisited in the event of alternative offers being made.
- 6.1.2 Income levels from raising of charges and receipt of grants – Income generated by the Council is substantial however there remains the uncertainty of customer behaviour and changing economic factors that may affect the demand for services for which the Council charges and the total amount that it collects during the year. Similarly, there are assumptions built into the budget model in relation to grants that will be received and one example, Teachers' Employers Pension Contributions, where decisions on this funding stream are still to be made at a UK Treasury level before passing to Scottish Government and on to the Council. There remains a risk that the total values received, against budget do not match.
- 6.1.3 Group Entity Decisions – A number of proposals have an impact on Council group entities (see paragraphs 3.87 to 3.98). The decision on how proposals are implemented rests with the Board of each organisation therefore the risk is that decisions taken are ultimately different from what is intended. Close working between officers from the Council and each of the organisations is essential to ensure delivery of the budget.
- 6.1.4 EU Exit – The UK is due to leave the European Union on 29 March 2019. There remains significant uncertainty in relation to the impact of the UK exit from the EU on the operation of the Council, for example the cost of goods and services, the availability of workforce and the potential need within the city. This means that the Council should be working to strengthen the balance sheet and continue to hold usable reserves that could be used in the event of financial implications that cannot be addressed within the budget.
- 6.1.5 Contingent Liabilities – These are issues that, whilst not certain and/or quantifiable at this time, may result in financial liabilities in the future. The

Council's exposure to these types of liabilities is reviewed formally annually as part of the Annual Accounts however each year it is important in setting the budget to acknowledge the potential for additional cost to arise that has not yet been quantified. For this reason, as with Brexit, it is important that the Council continues to hold useable reserves that could be used in the event of these arising.

7. OUTCOMES

Local Outcome Improvement Plan Themes – In addition to our contribution to the multi agency improvement projects outlined in the refreshed LOIP, Aberdeen City council, as a single agency, makes a contribution through its activities to the LOIP outcomes.	
	Impact of Report
Prosperous Economy	<p>The Council's budget makes a major positive contribution to the Aberdeen city and wider regional economies. The budget can facilitate the Council maximising its economic levers, as an employer, procurer and asset owner to add to conventional economic development activity it delivers.</p> <p>As well as this direct intervention, the Council delivers a wider range of enabling services (transport/ roads, planning and education) that are crucial to the functioning of the North East of Scotland as a competitive business, investment and visitor destination. The city is home to 11,000 'businesses' (including public administration), supporting around 189,000 jobs and generate an estimated £256m in non-domestic rates.</p> <p>In addition to interventions such as business start-up, employability support, tourism/ events, inward investment or trade, the Council is also a major economic player. It employs 6,615 fte jobs, with a gross salary of £196.6m. In turn, this 'footprint' supports an additional 5,900 jobs and £78.7m spend in the wider city and Aberdeenshire economies.</p> <p>The Council's procurement totals around £300m, and £109m of this is delivered by 646 local firms, and the Council spends 8% more with local business than the Scottish council average.</p>
Prosperous People	<p>The Council's employment footprint is summarised above. Within this, around 900 people, or 14%, work in the city's most deprived areas.</p>

	<p>The Council is an Investors in Young People (IYYP) employer. A key part of the Project is to develop an Apprenticeship Programme for the Council to provide a range of apprenticeship to opportunities to employees, including young people to come and work for the Council. It will include a range of apprenticeship programmes including Foundation, Modern and Graduate apprenticeships across a range of job roles / disciplines, and from priority localities.</p> <p>In terms of its procurement value, the Council can also influence inclusive growth priorities in the Regional Economic Strategy and both the LOIP themes. The Sustainable Procurement and Community Benefits Policy aims to increase in the number of Council contracts that include community benefits requirements linked to the LOIP, and across Community Planning Aberdeen/ City Region Deal partners. For example, 'positive procurement' this year engaged with 628 people and has generated 58 jobs and 60 training outcomes (including 19 apprenticeships) through the Council's capital plan.</p>
Prosperous Place	<p>The Council owns a large and diverse property portfolio, around 1,200 assets, including land and buildings. This includes 113 factories/ industrial units, 336 ground leases, 91 shops and five museums/ galleries. In delivering the Aberdeen's and the Council's economic priorities there is considerable joint working between the City Growth and Corporate Landlord functions to attract inward investment to the city. These assets are also important in supporting collaboration with other public and private sector owners to improve the place, including delivery of the City Centre Masterplan, and, in localities, using Community Asset Transfer policy in targeted areas or groups.</p> <p>The Council's investment in its capital programme directly supports the investment in new assets that support the diversification of the city region economy, including tourism, events, leisure and culture, and the delivery of the City Region Deal, including roads, harbour and digital infrastructure.</p>
Enabling Technology	<p>Through its capital contribution to the Aberdeen City Region Deal, the Council's budget is investing in a £27m Digital Programme to enable new</p>

	technology applications across the city and wider region.
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8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	The Council must have due regard to protected characteristics under the Equality Act 2010. The budget proposals presented in this report have been subject to an equality impact assessment where appropriate. The assessments identify any protected characteristics which are likely to be impacted and any associated mitigating actions.
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Budget proposals presented in this report have been subject to consideration of the Fairer Scotland Duty for which the Council must have due regard where appropriate.

9. BACKGROUND PAPERS

Scottish Government Finance Circulars
 CIPFA “The Prudential Code for Capital Finance in Local Authorities
 Equality and Human Rights Impact Assessments

10. APPENDICES

Appendix 1 – Projected Balance Sheet as at 31 March 2019
 Appendix 2 – Medium-Term Financial Projection assumptions
 Appendix 3 – Reserves Strategy
 Appendix 4 – Budget Model 2019/20 – reconciliation to 2018/19
 Appendix 5 – Revenue savings options proposals
 Appendix 6 – Revenue items referred to the budget process
 Appendix 7 – General Fund Capital Programme 2019/20 to 2023/24
 Appendix 8 – Prudential Indicators
 Appendix 9 – Capital items referred to the budget process
 Appendix 10 – Fees and Charges proposals

11. REPORT AUTHOR CONTACT DETAILS

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APPENDIX 1

Balance Sheet Forecast to 31 March 2019

31 March 2018 £'000		31 March 2019 £'000
2,311,324	Property, Plant & Equipment	2,564,361
197,370	Heritage Assets	197,370
148,592	Investment Property	148,592
18,075	Long Term Investments	18,075
8,222	Long Term Debtors	9,606
2,683,583	Long Term Assets	2,938,004
56,202	Cash and Cash Equivalents	48,704
98,705	Short Term Investments	1,146
77,292	Short Term Debtors	76,106
1,174	Inventories	14,382
6,198	Assets Held for Sale	6,198
239,571	Current Assets	146,535
(79,435)	Short Term Borrowing	(221,859)
(78,245)	Short Term Creditors	(57,683)
(5,758)	Short Term Provisions	(10,563)
(3,222)	PPP Short Term Liabilities	(2,997)
(5,607)	Accumulated Absences Account	(5,607)
(579)	Grants Receipts in Advance - Revenue	(6)
(7,855)	Grants Receipts in Advance - Capital	(14,279)
(180,700)	Current Liabilities	(312,994)
(890,982)	Long Term Borrowing	(879,952)
(58,793)	Finance Lease	(58,793)
(108)	Long Term Creditors	(108)
(679)	Long Term Provisions	(679)
(97,751)	PPP Long Term Liabilities	(94,754)
(310,251)	Pension Liabilities	(310,251)
(1,358,564)	Long Term Liabilities	(1,344,536)
1,383,889	Net Assets	1,427,009
	Usable Reserves:	
(40,697)	General Fund Balance	(31,292)
(11,808)	Housing Revenue Account	(9,954)
(13,460)	Statutory and Other Reserves	(9,360)
(1,317,924)	Unusable Reserves	(1,376,403)
(1,383,889)	Total Reserves	(1,427,009)

APPENDIX 2

Medium-Term Financial Projections - Assumptions

REVENUE BUDGET ASSUMPTIONS

	YEAR 1 (2019/20)	YEARS 2 – YEAR 5
PAY AWARDS (all staff)	3%	3%, 2.5%, 2.5%, 2.5%
ENERGY	Increased cost of gas 6%, electric 8%, oil 6%, heat- AHP 3.6%, biomass 3.6%	Increased cost of gas 6%, electric 8%, oil 6%, heat- AHP 3.6%, biomass 3.6%
CAPITAL FINANCING COSTS	Based on proposed capital plan	Based on proposed capital plan
SCOTTISH GOVERNMENT FUNDING	Per Finance Circular and amended by letter of 31 January 2019	Reduction of 3%, 2%, 1%, 1%
COUNCIL TAX BASE	CT income uplifted for additional homes being built each year (per planning)	CT income uplifted for additional homes being built each year (per planning)
COUNCIL TAX RATE	Nothing in base as options included	3% increase p.a.
FEES AND CHARGES	Nothing in base as options included	2% increase p.a.

Aberdeen City Council

Financial Strategy – Revenue and Capital Reserves

Executive Summary

The requirement to retain and manage financial reserves is a critical element of robust financial management and has a basis in statute. This strategy focuses on the General Fund reserves.

The Council, using a risk-based approach to retention of uncommitted balances and taking account of known financial commitments in future years currently has reasonable sums held for use or set aside in the event of unexpected or unplanned commitments.

A forecast summary of General Fund Reserves and other Statutory Reserves is as follows:

Aberdeen City Council Usable Reserves	Balance at 31 March 2018 £'000	Use of Reserve in 18/19 £'000	Contribution to Reserve in 18/19 £'000	Estimated Balance at 31 March 2019 £'000
Summary				
General Fund				
- Earmarked	29,313	(6,705)	0	22,608
- Uncommitted Working Balance	11,384	(2,700)	0	8,684
	40,697	(9,405)	0	31,292
Housing Revenue Account				
- Earmarked	2,162	(1,854)	0	308
- Uncommitted Working Balance	9,646	0	0	9,646
	11,808	(1,854)	0	9,954
Statutory Funds				
- Capital Fund	11,780	(11,100)	7,000	7,680
- Insurance Fund	1,339	0	0	1,339
- City Improvement	336	0	0	336
- Lord Byron	5	0	0	5
	13,460	(11,100)	7,000	9,360
Total Reserves	65,965	(22,359)	7,000	50,606

The Council continues to retain a significant value of usable reserves, with most of that value set aside and earmarked for specific purposes. The trend also continues to reduce the overall value as projects and specific purposes use the monies that have been set aside. In 2018/19 it is forecast that the General Fund uncommitted working balance will be used to the value of £2.7m.

APPENDIX 3

The recommendation of this strategy is that a value of £10.5m is set aside for emergency and unplanned expenditure, which means that a sum of £1.816m would ideally be included as a surplus to the revenue budget for 2019/20. The budget model for 2019/20 anticipates that all the money used from the working balance is replaced in 2019/20 and shows as a cost pressure of £2.7m.

The Capital Fund retains the Council capital receipts and additional money is expected to be received during the year, based on the sale of housing sites to the Housing Revenue Account. The value that is drawn from the Fund in 2018/19 is to pay for the voluntary severance and early retirement scheme, and to support the repayment of debt principal in 2018/19. The future value of the Capital Fund will depend on the total value of capital receipts in future years and the cost of the voluntary severance / early retirement that will remain a feature of the budget options in 2019/20.

Further review of the value of balances in other funds is completed as part of the annual accounts process.

Background

1. The requirement for financial reserves is acknowledged in statute. Section 93 of the Local Government Finance Act 1992 requires Scottish authorities, in calculating the council tax, to take into account 'any means by which those expenses may otherwise be met or provided for'. This includes reserves.
2. In Scotland there are explicit statutory powers under schedule 3 of the Local Government (Scotland) Act 1975 permitting certain local authorities to establish a renewal and repair fund, and insurance fund and a capital fund alongside a requirement to maintain a general fund (s.93 of Part VII of the Local Government (Scotland) Act 1973). Separate reserves can be established in Scotland only where there are explicit statutory powers. Scottish local authorities may however ' earmark ' specific parts of the General Fund reserve.
3. There are other safeguards in place that help to prevent authorities over- committing themselves financially. These include:
 - The balanced budget requirement (Local Government Finance Act 1992 s93).
 - Legislative requirement for each authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer has responsibility for the administration of those affairs (s.95 of the Local Government (Scotland) Act 1973).
 - The requirements of the Prudential Code
 - Auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

APPENDIX 3

4. Whilst it is primarily the responsibility of the authority and its chief financial officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.
5. CIPFA's Prudential Code requires the chief finance officers in authorities to have full regard to affordability when making recommendations about the authority's future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the authority is required to consider all of the resources available to it/estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three-year revenue forecasts across all authorities and this is achieved through the 5-year financial model. This provides ability to focus on the levels of reserves and application of authority balances and reserves.
6. Within the existing statutory and regulatory framework, it is the responsibility of the chief financial officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
7. CIPFA and the Local Authority Accounting Panel do not accept that there is a case for introducing a generally acceptable minimum level of reserves. Authorities on the advice of their chief finance officers should make their own judgements on such matters taking into account all relevant local circumstances. Such circumstances will vary between authorities. A well- managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but also are necessary.
8. Imposing a generally applicable minimum level would also be counter to the promotion of local autonomy and would conflict with the financial freedoms introduced for Scottish authorities in the Local Government in Scotland Act 2003. Nor is it considered appropriate or practical for CIPFA, or other external agencies, to give prescriptive guidance on the minimum (or maximum) level of reserves required, either as an absolute amount or a percentage of budget.
9. In order to secure strong governance for the Council and a sustainable future, the principles of good legislative and best practice are important to underpin our approach. Further, in order to secure the confidence of our Bond investors and to retain our credit rating, the management of our reserves and balance sheet is an important check.

Current Financial Climate

10. The pressures on public finances over the next few years are expected to remain intense. Therefore, the ability to retain reserves for unforeseen events and circumstances become not only difficult, but something that requires careful consideration.
11. Uncertainty remains a feature of the overall economic climate and the potential benefits of new devolved powers and opportunities for local taxation are not yet clear
12. The Council has a challenging 5 year financial position based on our models and scenario planning that requires substantial savings to be delivered. The changes required are underpinned by our transformation delivery plans and monitoring arrangements. There are inherent risks in delivering the level of savings required and the Council needs to look to continue its work to protect and prepare for the uncertain future.
13. At present there has been no agreed national pay award agreed for the current financial year, which means that both 2018/19 and 2019/20 contains assumptions around the actual cost.
14. Audit Scotland produced in April 2018 a national report on the Challenges and change in 2018 that faces Scottish Local Government and there are clear messages of substantial long and short term factors that will have a significant impact on the Council's service delivery priorities and cost base. See Appendix A.
15. The UK is due to leave the European Union on 29 March 2019. There remains significant uncertainty in relation to the impact on the operation of the Council, for example the cost of goods and services, the availability of workforce and the potential need within the city.
16. Contingent Liabilities – These are issues that, whilst not certain and/or quantifiable at this time, may result in financial liabilities in the future. The Council's exposure to these types of liabilities is reviewed formally annually as part of the Annual Accounts however each year it is important in setting the budget to acknowledge the potential for additional cost to arise that has not yet been quantified.
17. Other known challenges that will impact on the Council beyond this financial year include the national Welfare Reform changes and the ongoing changes to Health and Social Care Integration and Early Years provision.
18. In a national and global context the complexity and fluctuation of financial markets, particularly in Europe, adds to the potential impact that could be felt on the financial resources available to the council to delivery services to the citizens of Aberdeen.

Types of Reserve

19. When reviewing the medium term financial plans and preparing the annual budgets authorities should consider the establishment and maintenance of reserves. These can be held for four main purposes:
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
 - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
 - A means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general reserve.
 - The economic climate and the safety of the Council's financial assets. This would link closely with the Council Treasury Management and Prudential Code Strategies.
20. Authorities also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves, which are not resource-backed and cannot be used for any other purpose, are listed below:
- The Pensions Reserve
 - The Revaluation Reserve
 - The Capital Adjustment Account
 - The Available-for-Sale Financial Instruments Reserve
 - The Financial Instruments Adjustment Reserve
 - Accumulated Absences Adjustment Account
21. Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation, such as the Capital Grants Unapplied Account.
22. In addition, authorities may hold a Capital Fund. This reserve holds the proceeds from the sale of assets and can only be used for capital purposes in accordance with the regulations. The Council maintains a Capital Fund.

23. For each earmarked reserve held by the authority there should be a clear protocol setting out:
- The reason for/purpose of the reserve
 - How and when the reserve can be used
 - Procedures for the reserves management and control
 - A process and timescale for review of the reserve to ensure continuing relevance and adequacy
24. When establishing reserves, authorities need to ensure that they are complying with the Code of Practice on Local Authority Accounting and the need to distinguish between reserves and provisions.

Aberdeen City Council Reserves

25. This document aims to provide an over-arching strategy that is applicable to the year ahead and is included in the budget report for the purposes of being considered at the time of budget setting.

The General Fund (excluding Housing Revenue Account Reserves)

26. It has previously been agreed by the Council that the General Fund will retain an uncommitted balance at a level based on a risk assessment of the factors impacting our finances; at 1 April 2018 this amounted to £11.3 million.
27. The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event. The minimum amount for this reserve on a risk basis should be £8.3m, and the recommended amount is £10.5m.
28. The General Fund should be set at a prudent and not excessive level, as holding high level of reserves can impact on resources and performance. While no maximum has been set it is important to regularly consider the level of risks that are known and give consideration to the potential internal and external factors that may impact on the ability of the Council to delivery its strategic objectives, and to be financially prepared.
29. As the net budget position changes the level of General Reserve must be monitored to ensure the minimum level is maintained. This is particularly relevant where revenue carry forwards are identified as part of the year-end process.
30. Appendix B details the elements that make up the current General Fund uncommitted reserve and the levels of risk attached to each of these elements. These are indicative and may not be exhaustive as new risks emerge.

The General Fund - Earmarked Reserves

31. Unlike the General Fund uncommitted balance, earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the authority to identify such areas of expenditure and set aside amounts that limit future risk exposure.
32. Such expenditure usually arises out of specific projects and work that continues over a period of more than one year, where identifiable risks exist, where an specific Council policy exists (such as the Devolved Education Management scheme) or where accounting treatment dictates that sums must be treated as such (for example unspent grants and contributions that have no repayment conditions).
33. Appendix C details each of the earmarked reserves and the anticipated year end balance.
34. Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve, and new earmarked reserves can be created, normally occurring at year end as part of the year-end review processes or during the annual budget setting process.
35. In preparing for the period ahead and in advance of full consideration of the revised 5-year financial modelling and annual Budget setting for 2019/20 there is an acceptance that the potential risks arising from a number of the factors highlighted in the 'Summary of Demand and Cost Pressures' at Appendix A are as yet uncertain in nature.
36. The 5-Year financial model has does not yet take account of the full extent of savings and transformation that the Council expects over the short term but the gap between income and expenditure is expected to continue to grow and therefore new ideas and solutions will have to be found to setting affordable budgets and maintaining Council reserves at a level that is appropriate.

Monitoring

37. The level of Reserves is kept under review. The Council receives reports on the levels of reserves as part of the annual budget setting process, the preparation of the annual accounts and at other times should circumstances require it.

Risk Analysis

38. Any recommendations that change the planned use of Reserves reported within the Annual Budget will take account of the need for service delivery balanced against the need to retain prudent levels of Reserves.

APPENDIX 3

39. The significant risks that have been considered, but which will also be kept under review are:

- The anticipation of considerable cost pressures, pay and prices, demand and need, as well as changes resulting from national policy, such as Welfare Reform, that may have a significant impact on the need for use of reserves.
- The potential impact of further changes to funding and financial resource availability from the current financial climate.
- The instability of the Financial Markets means that the investments we make with balances are currently exposed to greater risk.
- The challenges of the current 5-Year financial model and the extent to which efficiencies and alternative ways of working have on delivering a balanced and sustainable revenue budget position.

Strategy Review

40. This strategy will be reviewed annually.

41. During the year changes may occur in the 5-Year financial model, which affect this strategy. Such changes will be monitored by the Chief Officer - Finance and reported to the Council.

Summary of Demand and Cost Pressures

Key messages from Audit Scotland Report 'Local government in Scotland : Challenges and Performance 2018' are:

Challenge	Detail of risk
Economic/Financial	UK withdrawal from the European Union Public Sector reform - substantial reductions in spending Between 2010/11 and 2018/19 revenue funding has fallen by 9.6% in real terms Councils are increasingly using their reserves and delivering savings is now critical
Demand	Ageing population Population change Population is predicted in Scotland to grow by 3% between 2016 and 2026 Population is predicted in Aberdeen City to grow by 17% between 2014 and 2039 Population of children under 5 is predicted to grow by 20% between 2014 and 2039 Population of adults of pensionable age is predicted to grow by 20% between 2014 and 2039 Rising pension costs Rising debt costs End to public sector pay cap Apprenticeship levy Equal pay claims National insurance contributions
Policy and legislative changes	Review of Local Governance by Scottish Government and COSLA Community empowerment Act - realising the ambitions City Region deals and growth deals Integration of health and social care Education Reform Barclay review of non domestic rates enterprise and skills review Early learning and childcare Free personal cre for older people Named person provision
Delivering transformation	Developing new ways of working Scoping, resourcing and managing transformation Responding to limitations on where and how savings can be made Effective management of workforce reductions Transformation projects are high risk Effective implementation of digital technology
Uncertainty	Changes in strength of partners Political uncertainty
Performance	Maintaining or improving performance under circumstances of financial challenge Maintaining focus on outcomes and improvements in areas of deprivation Maintaining public satisfaction with services Social care services keeping up with demand Learning experience and staff morale being impacted in education Performance of smaller services being impacted by budget cuts

Reserves Risk Assessment 2019-20
GENERAL FUND – UNCOMMITTED RESERVE

Risk	Impact	Probability	Min £m	Max £m	Recommende d £m
Major incident(s), Unbudgeted expenditure	Potential unplanned expenditure in support of specific circumstances	Single incident amounting to less than 1% of net budget – MEDIUM Multiple incidents amount to over 1% of net budget – VERY LOW	4.3	8.6	5.0
Major disaster (e.g. natural)	Service delivery affected and resources diverted (e.g. through buildings being inaccessible and disaster recovery plan being actioned)	Based on historic experience – VERY LOW	1.0	4.0	1.0
Counterparty failure	If invested balances were tied up in a process to recover them there would be an immediate impact on the revenue budget as funds at additional cost were obtained.	Based on treasury policy and practices – VERY LOW	1.0	5.0	1.0
General financial climate	Wider knock-on effects of financial market changes, recession and / or lower growth and the consequential impact on UK and Scottish budgets.	LOW to MEDIUM	2.0	7.5	3.5
			8.3	25.1	10.5

APPENDIX 3

APPENDIX C

GENERAL FUND – EARMARKED RESERVES

		Balance at 31 March 2018 £'000	Use of Reserve in 18/19 £'000	Contribution to Reserve in 18/19 £'000	Estimated Balance at 31 March 2019 £'000
General Fund: Earmarked					
Business Plan Service Option	Investment regarding delivery of 5 year business plan	153	(13)		140
Star Awards Sponsorship	Through procurement team, rebates paid by suppliers for sales volumes. Agreed that this funding would be used to fund the Star Awards, which take place each year	25	(19)		6
Xerox Print Contract	2016/17 rebate from Xerox to fund various Data projects	100	(48)		52
Mither Kirk Reburial of Remains	Reburial of Human Remains	38	0		38
Energy Efficiency Fund	Pump-prime funding for energy saving schemes	1,146	0		1,146
Bus Lane Enforcement	As required by the relevant legislation, net income from Bus Lane Enforcement to facilitate the objective's of the Local Transport Strategy	891	(390)		501
Property Transfer	Funding in relation to the transfer of Thomas Blake Glover House to the Council	129	(25)		104
Second/Long Term Empty Homes	Additional income generated by reducing the discounts which is to be used towards funding affordable housing.	8,304	0		8,304
Mens Shed	Contribution to Men's Shed social club, Dyce	5	(5)		0
Devolved Education Management (Community Centres)	Community Education Centres c/forward	562	(6)		556
Devolved Education Management (School Funds)	School funds c/forward	993	(829)		164
HMT Roof Works	HMT Roof Works	126	0		126
De-risk the Council	Cash backing for Council guarantees to external organisations	2,505	(100)		2,405
Pupil Equity Fund	Scottish Government Grant to raise attainment in Schools	1,621	(1,621)		0
18/19 GRG Redetermination	Scottish Government Grant issued during 2017/18 carried forward to 2018/19	1,211	(1,211)		0
Transformation Fund	Funding set aside towards the ongoing transformation of the Council	11,232	(2,257)		8,975
Revenue Grants Unspent	Various revenue grants that remained unspent at year end to which no repayment conditions apply	13	(13)		0
Building Services IT Upgrade	Equipment identified as having the specifications that are required for business/service needs, and to help drive forward productivity and efficiencies with in mobile working	78	0		78
Various Projects	Provide funding to support a variety of projects	181	(168)		13
Total GF Earmarked		29,313	(6,705)	0	22,608

APPENDIX 4

Budget Model 2019/20 - Reconciliation to Revised 2018/19 Budget

General Fund Revenue Budget Reconciliation 2018/19 to 2019/20 - By Account Codes												
SUMMARY ANALYSIS												
Reference Section...	7	6	8	10				2	2			
£'000	REA - Staff Costs	REB - Premises Costs	REC - REG, REH - Spending Costs	REH - Capital Financing Costs	Total Exp	RI - Total Service Income	NET SERVICE EXPENDITURE	General Revenue Grant	Non Domestic Rates	Council Tax	Total Funding	NET EXPENDITURE
Function / Description												
Commissioning	5,055	1,282	25,275	0	31,612	(3,375)	28,237				0	28,237
Corporate	(3,971)	1,538	37,738	32,822	68,127	(28,581)	39,546				0	39,546
City Growth	5,272	646	5,735	0	11,654	(3,717)	7,937				0	7,937
Customer	28,948	4,353	69,614	0	102,915	(66,109)	36,805				0	36,805
Governance	3,946	2	1,053	0	5,000	(2,070)	2,930				0	2,930
Aberdeen Health & Social Care Partnership	18,029	380	115,548	0	133,957	(48,962)	84,995				0	84,995
Operations	195,208	36,699	69,081	0	300,988	(74,887)	226,101				0	226,101
Resources	14,436	5,794	13,913	0	34,144	(28,325)	5,818				0	5,818
Strategic Place Planning	6,207	187	3,981	0	10,375	(3,390)	6,985				0	6,985
TOTAL BY ACCOUNT CODE	273,129	50,880	341,940	32,822	698,771	(259,417)	439,354	0	0	0	0	439,354
Funded by:												
Corporate					0	0	0	(95,180)	(227,801)	(116,373)	(439,354)	(439,354)
TOTAL FUNDING	0	0	0	0	0	0	0	(95,180)	(227,801)	(116,373)	(439,354)	(439,354)
OVERALL BUDGET 2018/19	273,129	50,880	341,940	32,822	698,771	(259,417)	439,354	(95,180)	(227,801)	(116,373)	(439,354)	0
Movements in 2019/20												
Staff Increments	2,598		0	0	2,598	0	2,598				0	2,598
Pay Award	12,028			0	12,028	0	12,028				0	12,028
Teachers Employer Pension Rate Increase	3,629			0	3,629	(2,867)	762				0	762
Re-calibrate Vacancy Saving	4,000			0	4,000	0	4,000				0	4,000
Debt Charges				9,256	9,256	0	9,256				0	9,256
Estimated part year income (new AECC)				0	0	(4,000)	(4,000)				0	(4,000)
Utilities		1,155		0	1,155	0	1,155				0	1,155
Non-domestic Rates		398		0	398	0	398				0	398
Annual Service Payments - Schools		1,048		0	1,048	(555)	493				0	493
Running Costs of New Schools		50		0	50	0	50				0	50
Zero Waste Strategy (updated profile)			293	0	293	0	293				0	293
Contingency Reduction			(1,000)	0	(1,000)	0	(1,000)				0	(1,000)
Contractual Changes			410	0	410	0	410				0	410
Elections			10	0	10	0	10				0	10
Early years additional funding per Settlement			11,898	0	11,898	(11,898)	0				0	0
Pass Health and Social Care Funding in Settlement to IJB			4,454	0	4,454	0	4,454				0	4,454
Other	85	(139)	209	0	155	574	729				0	729
18/19 Cost Pressure - Income updates based on actual experience			0	0	0	2,120	2,120				0	2,120
18/19 Cost Pressure - Children Services			3,082	0	3,082	0	3,082				0	3,082
18/19 Cost Pressure - Education Services	100	100	168	0	368	0	368				0	368
18/19 Cost Pressure - Goods & Services (Ops)			600	0	600	0	600				0	600
18/19 Cost Pressure - Langdykes refuelling increased costs (CG)			100	0	100	0	100				0	100
TOTAL SERVICE EXPENDITURE MOVEMENT 18/19 TO 19/20	22,439	2,612	20,224	9,256	54,532	(16,626)	37,906	0	0	0	0	37,906
Funded by:												
Funding adjustments - per settlement & Additional announced 31-1-19					0	0	0	34,981	(30,759)		4,222	4,222
Council Tax from additional homes					0	0	0			(908)	(908)	(908)
TOTAL FUNDING MOVEMENT 18/19 TO 19/20	0	0	0	0	0	0	0	34,981	(30,759)	(908)	3,314	3,314
OVERALL BUDGET 2019/20 GAP	295,569	53,492	362,163	42,078	753,303	(276,043)	477,260	(60,199)	(258,560)	(117,281)	(436,040)	41,220

APPENDIX 5

Revenue Budget Saving Options

2019/20 BUDGET - OPTIONS	£'000
COST OF ASSETS	
Close community learning centres	275
Community asset transfer of community centres	300
Co-location of public sector partners into Marischal College	450
Asset rationalisation (4 Miltonfold)	3
Asset rationalisation (Balgownie 1 and existing AECC)	100
Asset rationalisation (Mill of Mundurno yard (granite Store))	18
Asset rationalisation (Culter pop in)	1
Asset rationalisation (3 Finnan Place)	1
Asset rationalisation (Cummings Park Community Flat)	1
Fund public clocks costs from Common Good	4
Asset rationalisation (Bon Accord Baths)	5
Pending rent reviews in portfolio.	150
Continued evaluation of tenanted non residential property portfolio (TNRP)	20
Asset rationalisation (Victoria Road School and Abbey Road)	25
Asset rationalisation (77-79 King Street)	8
Saving on electricity costs with vacant properties	20
Reduction of vans within Building Services	40
Decisions Required in 2019/20 for financial benefit in future years:	
Tillydrone assets with new hub coming on stream.	0
Similar review around Torry	0
Asset rationalisation (Frederick Street)	0
Asset rationalisation (Kittybrewster)	0
Asset rationalisation (Rosehill House)	0
Asset Rationalisation (Jack's Brae Car Park)	0
Asset rationalisation (former Greenfern Infant School site)	0
Asset rationalisation (Froghall Community and learning Centre)	0
Asset rationalisation (Linksfield Day Care Centre)	0
Asset Rationalisation (Carden School site)	0
Ongoing interest in community asset transfer projects.	0
Asset rationalisation (Woodside Burgh Hall)	0
Review of Depot provision and closure of smaller depots.	0
Effective management of property disposals and associated costs	0
Asset rationalisation (St Peters Nursery)	0
Asset Rationalisation (Braeside school)	0
Asset rationalisation (former Bucksburn Primary School)	0
Identify long term solution for vacated Stoneywood Primary site	0
TOTAL SAVINGS IN COST OF ASSETS	1,420

APPENDIX 5

2019/20 BUDGET - OPTIONS	£'000
SPENDING CATEGORIES	
Reductions in Levels of Grant Funding:	
Shelter Scotland	35
Workers Education Association	10
Aberdeen Lads Club	31
Fersands Community Project/Family Centre	91
Middlefield Community Project	11
Printfield Community Project	7
Printfield Community Project	66
St Machar Parent Support Project	29
Grampian Regional Equality Council	46
Aberdeen Council of Voluntary Organisations	43
Station House Media Unit	17
Bulawayo Trust	20
Gomel Trust	22
Castlehill Housing Association (Aberdeen Care & Repair)	55
Early years grants to external organisations	128
Aberdeen Inspired	47
Castlegate Arts	48
Peacock Visual Arts	47
Robert Gordon University	25
Sound Festival	12
Visit Aberdeenshire	260
City Moves	201
Aberdeen Performing Arts	110
Fairer Aberdeen	538
	1,899
Reductions in Levels of Funding to ALEO's & Partnerships:	
Sport Aberdeen - reduction in core funding	550
Sport Aberdeen - review and reduction in provision	2,000
Aberdeen Sports Village - reduction in core funding	100
Aberdeen Performing Arts - reduction in core funding	100
Aberdeen H&SC Partnership IJB - reduction in funding (2.2% SG flexibility applied)	1,870
Aberdeen H&SC Partnerhsip IJB - commission School Mental Health Counselling from the Council	125
	4,745

APPENDIX 5

2019/20 BUDGET - OPTIONS	£'000
Recharges to the HRA:	
Children's social work services	115
Postage	15
	130
Reduction in Contract Spend and Volumes:	
Stop colour photocopying	2
Reduce printing	204
Reduce agency spend	182
Review external communications with a view of reducing sending of post and increase the use other means where possible	13
Review of reprographics demand with a view of reducing sending of marketing print work and increase the use of other means where possible and consolidate remaining demand under existing contract	25
Review of fleet use to optimise use of owned fleet	56
Reduce cost of confidential waste	6
Reduction in fuel spend due to bunkering	120
Reduction in Fuel through use of telematics	163
Consolidation and reduction of all training budgets	125
Contract saving - ongoing review of all contracts (not covered elsewhere) - stop, renegotiate or reduce	1,250
Explore options of sharing resources with other councils and/or other public sector organisations	440
Digitalisation and improved efficiency of income collect (e.g. upfront payment etc)	75
Homelessness - review of council properties vs hotels	63
Explore options of sharing Business Intelligence data and resources with other public sector organisations	50
Increase in inhouse foster carers and reduce children placed with external agencies	100
Rationalisation of ICT infrastructure and software licences	1,000
	3,873
Improvements in Contract Prices	
Review of framework and ensure lowest cost option - roadstone	22
Review of framework and ensure lowest cost option - roads maintenance materials and street lighting materials	12
	34

APPENDIX 5

2019/20 BUDGET - OPTIONS	£'000
Contract Management:	
Standardisation of flooring products	5
Review food contracts with a focus on non-food cost elements (e.g. distribution & delivery)	40
Review multiple small contracts and consolidate into larger contract(s) to achieve savings -Cleaning & Janitorial Specialist Hygiene Cleaners	16
Review multiple small contracts and consolidate into larger contract(s) to achieve savings - Commercial Catering eqm, whitegoods & laundry Equipment	13
Review multiple small contracts and consolidate into larger contract(s) to achieve savings - Catering, Cleaning & Janitorial products	20
Review purchase of plants for public spaces and ensure lowest cost option - ground maintenance (garden centres and nurseries)	5
Review of contracts relating to 3R schools	300
Review of spending controls and non compliant purchasing.	50
Realignment of costs - Early Learning Expansion	165
Re-provision of Ideas Hub	20
New approach to supported housing (framework with various providers)	50
Review of Utilities Contracts under Scottish Gov Framework	100
Standardisation of all personal protective equipment (PPE)	20
Review of architectural and structural engineering framework across 3 councils	12
Increase the lease works of art / museum pieces whilst not in use	22
Accelerating of LED street lighting project	115
Street lighting columns - accelerate rolling program	100
One-off distribution of accumulated surplus from NYOP (3R's) for charitable purposes.	800
	1,853
TOTAL SAVINGS FROM 'SPENDING' CATEGORIES	12,534

APPENDIX 5

2019/20 BUDGET - OPTIONS	£'000
CHANGES TO THE LEVEL OR APPROACH TO SERVICE DELIVERY	
Reductions:	
Reduction in Roads Service Provision - winter maintenance	153
Reduction in Roads Service Provision - patching repairs (potholes)	150
Reduction in Roads Service Provision - carriageway and footway repairs	150
Reduction in Roads Service Provision- hake maintenance	50
Reduction in Roads Service Provision - gully emptying	50
Reduction in Roads Service Provision - road marking renewals	25
Reduction in Roads Service Provision - street lighting repairs	80
Reduction in Roads Service Provision- emergency street lighting attendance/electrical testing/column and underground repairs	35
Reduction of school grounds maintenance.	160
Reduction in road vegetation maintenance.	200
Reduction in maintenance at cemeteries / crematorium.	370
Reduction in parks and greenspaces maintenance.	520
Reduction to street sweeping.	150
Reduction in maintenance to Social Care properties and Community Centres	50
Household waste recycling reduced opening hours	50
Reduction in library provision	863
Reduce funding to Equalities service	155
Reduce Adult Learning	268
Reduce youth work	275
Reduce youth work drugs diversion	50
Reduce Community Safety and City Wardens provision	250
Reduce Homecheck service	20
Reduce school transport	44
Remove voluntary cap on Primary one class sizes	150
Reduce Education Support Provision	150
Reduce Education Psychologist Provision	200
	4,618
Stopping Provision:	
Stop provision of school crossing patrols	317
Closure of public toilets	257
Stop school transport to the Gaelic Unit	56
	630

APPENDIX 5

2019/20 BUDGET - OPTIONS	£'000
Reductions in Staffing Levels as a result of Service Redesign:	
Master data management - cross organisational redesign	63
Reduction of private sector leasing (PSL) service	150
Redesign of temp accommodation for people with complex needs (closure of Margaret House)	168
Review of implementation of reclaiming social work	100
Further integration of services within Integrated Children and Family Services (ICFS)	75
Efficiency Savings in Children's Centres	100
Bring MOT final inspections in house	45
Replace Tranman IT system to improve vehicle repair and maintenance management and scheduling.	30
Alternative Delivery Model from Waste	120
Improved utilisation of vehicles by use telematics in vehicle fleet	22
Implementation of extended workshop opening hours	120
Reduction in the frequency of services being delivered by Facilities Management	1,096
Term time working for School technicians/librarians	254
Review administrative support model in Education	100
Review of safer Aberdeen provision	20
Teachers Vacancy Factor	3,500
Digital service redesign across the Council	9,500
	15,463
TOTAL SAVINGS FROM SERVICE CHANGE AND REDESIGN WORK	20,711
COST OF STAFFING	
Review of Terms and Conditions	600
Review of Staffing Policies	100
Review and reduction of all staff and councillor travel	460
TOTAL SAVINGS FROM STAFFING COSTS	1,160
FEES AND CHARGES INCOME	
Revision to Existing Fees and Charges (refer also to Appendix 10)	
Raise 3% more income from existing charges through various percentage increases	850
Increase in domestic household waste charges - bulky uplifts etc	75
Car parking - Permits	154
Roads and Street works fees and fines	20
Overnight parking for campervans	10
Additional Food Safety and Hygiene Service to Businesses	5
Advertise on Council Vehicles	40
Staff Meals	73
School meals	100
Contract Cleaning	100
Early Years Childcare	100
Crematoria and burial services - increase fees and charges	50
Environmental Services - grounds including allotments	50
Additional services provided at the crematorium	8
Litter enforcement treated differently	20
School lets	27
	1,682

APPENDIX 5

2019/20 BUDGET - OPTIONS	£'000
New income opportunities:	
Media monitoring and licensing	45
Design Work (graphic)	170
Introduction of Admin fee for issuing of waste transfer notes	19
Franchise the Beach Ballroom (6 months)	146
Education - transport (pupils choosing to attend out of zone school)	83
Library biometrics – projected income based on average charge received per appointment and UK Government projections for number of appointments	30
Introduction of domestic household garden waste charge	680
Car parking charges - new places e.g. parks and forests	15
Car parking charges - Marischal College	30
Public Transport Unit - introduction of charges for service users	140
Franchise café facilities at Museums and Art galleries	50
Gardening Service	4
Workshops and training offered to external bodies and third parties e.g. OD/specialist technical services	5
Set up a venue finding agency or market council venues more - take commission from external venues	5
Charge to run boot fairs on council sites - charge the stall holders plus entry	10
Identify more profitable events that could be run using council prime venues e.g. museums, town house, ballroom	5
Walk of fame or brick sponsorship	25
Genealogy and archive services offered at a cost	10
Grow Plants and Sell Them	3
Planning Advice Service	5
Open Events at Museums	5
Lunch and learn on hobbies	3
Sell Naming Rights to Buildings	75
Advertise on council website	100
	1,663
TOTAL ADDITIONAL INCOME FROM FEES AND CHARGES	3,345
COUNCIL TAX	
Council Tax increase (3%)	3,491
Council Tax increase-additional (3% to 4.79%)	2,080
	5,571
TOTAL OPTIONS TABLED	44,740

Cost implications to deliver savings:

1. The scale of savings identified within this budget report is significant.

To achieve this scale the transformation of our workforce, organisation and digital technology is critical.

The Council Delivery Plan, on this agenda identifies the transformation deliverables for the Council during 2019/20. As well as these, the continued implementation of the 'Being Digital Strategy', approved at the Finance, Policy and Resources Committee in September 2016 is key to successfully delivering our change and transformation.

Continued investment in transformation and the digital and technological changes requires the continued commitment to setting aside funds to invest, and the Transformation Fund has a forecast balance at 31 March 2019 of £8.975m. The ongoing commitment to funds is essential to the delivery of the savings as a lot of the change relies on the ability to do things differently, streamline and have a smaller workforce. It is expected that proposals to commit the funds within the Transformation Fund will be considered in 2019/20.

2. A reduced workforce is a vital element of the budget proposals and as the Council has taken a no compulsory redundancy approach then the options available are more limited, with the policy of voluntary severance and early retirement being the key facilitators of this shift. The Council has already reduced the workforce in the current financial year and looks to do this again.

The costs associated with this have not be built into the Budget Model for 2019/20 so a funding source has to be found for what is expected to be a multi-million pound cost. Making use of capital receipts is the mechanism that the Council has been using and is an approved use of receipts, in accordance with Scottish Government authority.

Capital receipts are held within the Capital Fund and at the end of 2018/19 the balance remaining is expected to be approximately £7.7m. The Council should expect to spend all of this and make use of new capital receipts as the year progresses.

APPENDIX 6

Revenue referrals to the Budget Process

	Subject	Funding Implication (Revenue)
1	Electric Vehicles – Charge Point Electricity Costs	Additional Revenue Cost £32,400
2	Living Wall Project	Additional Revenue Cost £55,000
3	AREG – Future Operation & Membership	Options include continued membership costing £275 pa through to benefiting from retained reserves if wound up
4	HMP Peterhead Family Centre	£70,000
5	Lochside – Path upgrade between Charleston Drive and Crescent	Referred from Operational Delivery May 2018 £40,000
6	Alive@5	Referred from City Growth & Resources Sept 2018 £80,000 full year effect of free parking after 5 at designated car parks
7	International travel for Elected Member & Officer to Conference of Peripheral Maritime Regions	Referred from City Growth & Resources Sept 2018 £3,000 cost of attendance at 3 meetings
8	Maintenance of Heathryfold Park & Auchmill Wood	Referred from City Growth & Resources June 2018 £9,415
9	British Heart Foundation	Referred from City Growth & Resources June 2018 £5,000 to provide CPR training in schools
10	Torry, Cruyff Court	Referred from City Growth & Resources Feb 2019 £4,950 maintenance costs
11	Sale of lease AIP AEP	Report to be considered. £6,000,000 capital receipt – but lose £385,000 annual rent
12	Aberdeen Sports Village – Phase 3 pitches	Letter re shareholder commitments £167,000 additional funding
13	APA – Music Hall Redevelopment Loan	Request from APA for conversion of loan to grant funding Writing off loan would cost £2m
14	Strategic Energy Services Company (SESCo)	Set up costs £500,000

General Fund Capital Programme 2018/19 to 2023/24Significant Developments within the General Fund Capital Programme

The development of the **new event complex** will open during 2019. Construction is expected to be complete by summer 2019 and the first events are expected to be held in Autumn 2019. The new facility will deliver 48,000 square metres of multi-purpose event space, and will boast world-class conference and exhibition halls, a superior arena, spacious hospitality boxes and a high-end restaurant. Early preparation is already underway to host Offshore Europe 2019 at new site. The associated Anaerobic Digestion Gas to Grid plant project is now in construction and will provide an energy services solution to the wider development.

Aberdeen Art Gallery will open later this year following an extensive fit-out programme of works. The revitalised gallery complex (comprising the Art Gallery, Cowdray Hall and Remembrance Hall) will reopen as the city's key cultural venue, creating an exceptional centre for music and art in the centre of the city. The creation of an additional 500m² for special exhibitions will enable a vibrant programme of 10 exhibitions a year with a complementary programme of weekly talks and events. The new ground floor learning space and top floor seminar room will enhance the learning opportunities for all ages.

The Council has already agreed to take forward the design stage for **four new primary schools** at Countesswells, Milltimber, Tillydrone and Torry/Community Hub, with construction starting thereafter, subject to Council final approval. These new schools 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. Each of these facilities will consider **Early Learning and Childcare** requirements to increase the provision of childcare from 600 to 1140 hours per year by 2020. This will support child development by providing high quality services and will support parents to return to work or study. Services will be flexible, accessible and affordable.

In respect of the **Early Learning and Childcare** expansion project. In May 2018 multi-year capital and revenue funding was shared with Local Authorities. This was shared with the City Growth and Resources Committee through the Council Financial Performance, Q1 2018/19 on 1st August (RES/18/056). In all £23.04m has been allocated for the project up until 2020/21.

The 3 work phases have been determined to prioritise those in areas of deprivation first and consider more complex phases earlier in the programme. These phases will overlap as work gets underway.

The programme is developing at pace and consent is sought to proceed with the phase 1 projects to tender and contract award.

APPENDIX 7

The phase one projects are:-

- a. East Torry,(new build).
- b. Cummings Park (new build)
- c. Tillydrone (modular space);
- d. Approve the refurbishment of Woodlands.
- e. The development of outdoor provisions at Duthie Park to include refurbishing the Gate House;
- f. Tullos School,
- g. Westpark School,
- h. Kingsford School,
- i. Quarryhill School,
- j. Middlefield Community Hub,
- k. Northfield Community Centre
- l. and Woodside School;

The **Aberdeen Western Peripheral Route** is now open to use. Under the Agency Agreement Aberdeen City Council is managing the unitary charge payment mechanism on behalf of the Scottish Ministers. The Council's capital contribution to this scheme, including ancillary works, remains capped at £75m.

Assumptions

The General Fund Capital Programme shown below is based on the approved Programme for 2018/19, with a few updates referred to below.

Construction cost updates and revisions have been incorporated into the Programme as follows:

1. Use of the Construction Inflation budget in 2018/19 to support cost increases at the Art Gallery (£4.5m) and City Centre Regeneration projects (£5.5m); and
2. External funding provided to fund the total project budget of £0.3m for the Cruyff Court project.
3. In relation to the school projects that have approval to design stage, an initial cost estimate of £25m for each has been incorporated into the Programme, which in future years will have an impact on revenue costs that will have to be taken account of when setting the budget and Council Tax value for those years. The initial cost estimate is based on a broad assumption of costs and on detailed design not having been carried out and are subject to change following more detailed work.

The borrowing requirement is offset in part by the application for £2m of Scottish Government Grant for Torry Primary / Hub project; and also estimated developer contributions to the Countesswells Primary project of £10m over the life of the Programme. The Prudential Indicators at Appendix 3 include the impact of the additional net borrowing.

APPENDIX 7

It is recommended that the balance in the Construction Inflation budget is set aside for Safety and Security Measures for the property estate.

Several projects currently included in the programme are subject to final review on completion of business cases and procurement, and therefore a preliminary cost estimate, which is indicative, is shown and should be viewed as pre-tender estimates only at this stage. Business cases and procurement will inform the Council on the final cost estimate that will have to be included in the Programme at a future date for the projects to proceed.

In general, the Capital Programme will be reviewed and approved once a year as part of the budget setting process.

APPENDIX 7

Outturn 2018/19 £'000	GFCP No.		Budget 2019/20 £'000	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Total £'000
Projects Due for Completion in 2018/19								
1,492	587	Access from the North / 3rd Don Crossing	0	0	0	0	0	0
715	776	Orchard Brae	0	0	0	0	0	0
1,000	808A	New Academy to the South - ICT Infrastructure	0	0	0	0	0	0
1,802	808B	New Academy to the South - Infrastructure Improvements	0	0	0	0	0	0
107	810E	Investment in Waste Collection	0	0	0	0	0	0
737	810G	Co-mingled MRF & Depot	0	0	0	0	0	0
37	829	Middlefield Project Relocation (Henry Rae CC)	0	0	0	0	0	0
8	832	Dyce 3G Pitch	0	0	0	0	0	0
424	844	Sustrans Active Travel Infrastructure Fund	0	0	0	0	0	0
116	850	Community Growing Spaces	0	0	0	0	0	0
800	859	ICT: Human Capital Management System	0	0	0	0	0	0
7,238			0	0	0	0	0	0
Rolling Programmes								
6,446	294	Corporate Property Condition & Suitability	9,967	9,705	9,705	8,000	8,000	45,377
313	551	Cycling Walking Safer Streets	374	0	0	0	0	374
2,807	765G	Nestrans Capital Grant	1,500	1,295	1,295	1,295	1,295	6,680
750	779	Private Sector Housing Grant (PSHG)	872	700	700	700	700	3,672
2,781	784	Fleet Replacement Programme (including Zero Waste Strategy Fleet)	4,224	4,272	7,214	4,500	4,700	24,910
5,909	789	Planned Renewal & Replacement of Roads Infrastructure	4,837	5,468	4,968	4,968	4,968	25,209
235	789E	Street Lighting	1,000	1,000	1,000	1,000	1,000	5,000
1,000	835	Street Lighting LED Lanterns (PACE 5 Year programme)	1,946	1,946	1,946	700	0	6,538
500	861	Additional Investment in Roads	2,500	3,000	4,000	0	0	9,500
20,741			27,220	27,386	30,828	21,163	20,663	127,260
City Region Deal								
18	825	City Deal	26	0	0	0	0	26
55	845	City Deal: Strategic Transport Appraisal	50	200	613	0	0	863
2,000	846	City Deal: Aberdeen Harbour Expansion Project	2,000	0	0	0	0	2,000
150	847	City Deal: Digital Infrastructure	1,750	1,600	0	0	0	3,350
40	852	City Deal: City Duct Network	2,000	2,000	960	0	0	4,960
123	854	City Deal: Transportation Links to Bay of Nigg	0	0	0	0	0	0
647	860	City Deal: Expand Fibre Network	1,399	0	0	0	0	1,399
45	862	City Deal: Digital Lead	135	135	90	45	0	405
0	863	City Deal: Regional Data Network	150	0	0	0	0	150
0	864	City Deal: Sensor Network	150	0	0	0	0	150
3,078			7,660	3,935	1,663	45	0	13,303
Fully Legally Committed Projects								
6,010	627	Aberdeen Western Peripheral Route	12,386	6,575	825	227	0	20,013
0	794	Hydrogen Buses	5	0	0	0	0	5
3,221	799B	Art Gallery Redevelopment - Main Contract (HLF)	4,500	0	0	0	0	4,500
130,330	821	New Aberdeen Exhibition & Conference Centre	60,905	3,500	0	0	0	64,405
300	805	Technology Investment Requirements & Digital Strategy	1,801	0	0	0	0	1,801
120	807	A96 Park & Choose / Dyce Drive Link Road	1,000	0	0	0	0	1,000
3,577	810C	Energy from Waste (EfW) Procurement and Land Acq.	1,382	0	0	0	0	1,382
3,590	819	Tillydrone Community Hub	1,205	0	0	0	0	1,205
(236)	828	Greenbrae Primary Extension and Internal Works	750	0	0	0	0	750
2,285	831	Stoneywood Primary	169	0	0	0	0	169
708	843	Station House Media Unit Extension	16	0	0	0	0	16
326	857	Central Library Roof & Parapets	11	0	0	0	0	11
1,100	858	Crematorium Refurbishment	30	0	0	0	0	30
151,331			84,160	10,075	825	227	0	95,287
Partially Legally Committed Projects								
250	791	Strategic Land Acquisition	2,775	1,498	0	0	0	4,273
393	806B	CATI - Berrymen Corridor (Combined Stages 1, 2 & 3)	3,096	10,300	4,490	0	0	17,886
0	811	Social Care Facilities - Len Ironside Centre	88	0	0	0	0	88
448	812	Kingsfield Childrens Home	1,087	15	0	0	0	1,102
5,461	824	City Centre Regeneration	13,824	14,023	0	0	0	27,847
702	827	SIP New Build Housing Programme	200	0	0	0	0	200
3	836	Flood Prevention Measures: Flood Guards Grant Scheme	100	100	100	100	83	483
3,053	848	JIVE (Hydrogen Buses Phase 2)	4,147	0	0	0	0	4,147
10,310			25,317	25,936	4,590	100	83	56,026
Projects with indicative budgets								
0	795	Accelerate Aberdeen (City Broadband)	360	0	0	0	0	360
10	806A	CATI - South College Street	2,300	2,300	757	0	0	5,357
0	810J	Bridge of Don Household Waste Recycling Centre (HWRC)	50	50	1,300	0	0	1,400
0	820	Investment in Tenanted Non-Residential Property Portfolio	2,870	0	0	0	0	2,870
0	838	Flood Prevention Measures: Millside & Paddock Peterculter	2,000	1,000	0	0	0	3,000
50	851	Northfield / Cumming Park Early Learning and Childcare Provision	436	7	0	0	0	443
1	855	Early Learning & Childcare	7,399	8,600	7,040	0	0	23,039
300	809	New Milltimber Primary	2,500	17,030	5,170	0	0	24,700
300	840	Tillydrone Primary School	2,500	16,978	5,222	0	0	24,700
300	841	Torry Primary School and Hub	2,700	16,739	5,261	0	0	24,700
300	865	Countesswells Primary	2,500	17,030	5,170	0	0	24,700
889	810K	Energy from Waste (EfW) Construction & Torry Heat Network	22,000	49,000	13,087	0	0	84,087
25	849	Cruyff Court	275	0	0	0	0	275
tbc	856	Acquisition of Kingsmead Nursing Home	0	0	0	0	0	0
14,260	999	Construction Inflation Allowance for existing projects	(10,000)	0	0	0	0	(10,000)
16,435			37,890	128,734	43,007	0	0	209,631
209,133		Totals	182,247	196,066	80,913	21,535	20,746	501,507

Prudential Indicators

**ABERDEEN CITY COUNCIL
2019/20 to 2023/24**

**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 five year period, for both the general fund and 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:-

	Capital Expenditure						
	2017/18 £'000 Actual	2018/19 £'000 Estimate	2019/20 £'000 Estimate	2020/21 £'000 Estimate	2021/22 £'000 Estimate	2022/23 £'000 Estimate	2023/24 £'000 Estimate
Gen Fund	176,738	209,133	182,247	196,066	60,913	21,535	20,746
HRA	43,524	42,509	35,587	31,281	29,967	28,957	28,251

	Ratio of Financing Costs to Net Revenue Stream						
	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Gen Fund	6.7%	5.1%	6.0%	6.6%	7.8%	8.4%	8.4%
HRA	19.2%	10.5%	10.9%	10.8%	12.4%	13.6%	14.0%

	Capital Financing Requirement						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Gen Fund	706,598	863,951	977,811	1,120,365	1,131,697	1,111,621	1,089,412
HRA	332,516	352,170	359,791	361,872	362,303	361,325	358,236
Total	1,039,114	1,216,121	1,337,602	1,482,237	1,494,000	1,472,946	1,447,648

	Gross Borrowing						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Borrowing	746,913	869,978	1,050,574	1,175,448	1,322,304	1,337,903	1,320,536

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 Chief Officer - Finance reports that the Council can meet this requirement in 2019/20, 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.

	Authorised Limit for External Debt					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Operational Boundary	1,230,243	1,351,724	1,496,359	1,508,122	1,487,068	1,461,770
10% Margin	123,024	135,172	149,636	150,812	148,707	146,177
Total	1,353,267	1,486,896	1,645,995	1,658,934	1,635,775	1,607,947

	Operational Boundary for External Debt					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	1,074,065	1,198,939	1,345,796	1,361,394	1,344,027	1,323,238
Other Long-Term Liabilities	156,177	152,784	150,563	146,728	143,040	138,531
Total	1,230,242	1,351,723	1,496,359	1,508,122	1,487,067	1,461,769

Capital Projects referred to the Budget Process

Several capital projects that have been brought forward to the Council budget setting meeting and consideration and decisions are sought on these projects as part of the recommendations. A short summary of the projects referred to are included below:

- The next major project in the city centre masterplan delivery programme will be the development of **Queens Street**. This transformative scheme will deliver a new urban quarter alongside existing cultural facilities which will result in a vibrant quarter that is active throughout the day and into the evening. The project is central to the City Living approach that is being promoted to re-energise the core of the city and is complementary to the major investment in the city centre projects listed above. Decisions required at this moment are in relation to the relocation of the **mortuary facilities**, which required a permanent solution – indications being at a cost of £15m. There are a number of partner organisations that use the mortuary facilities so it is important that a funding solution recognises and incorporates the investment in the facility by all. Significant work has been undertaken with partners and a move away from Queens Street will also require a temporary solution – at an indicative cost of £0.8m.
- Elected members will also be aware that with the closure of the Tillydrone Housing office the **CCTV** used to monitor the housing estate will be relocated. This will be within Marischal College and offers the opportunity to also locate CCTV and traffic management at the same location. As part of this project discussions with partner organisations will also be held to determine any further synergies of co-locating similar services all within Marischal College. Initial costs are £0.46m with funding having been identified through existing funding, including the Housing Capital Programme. Expansion of this proposal should be subject to a full business case.
- A project has been identified to improve facilities at the **Clinterty Travellers Site** refurbishment. Officers have identified that the preferred option has a spend requirement in the region of £1.325m to provide the level of refurbishment and upgrading needed. It should be noted that included within the Council's Housing Revenue Account budget report is reference to this project specifically there is ongoing discussion with Scottish Government on whether this should be met from the Housing Revenue Account. This should be considered in making any decision on the use of the General Fund Capital Programme, as depending on the outcome of these discussions the Housing Capital Programme and HRA may have to address this matter.

APPENDIX 9

- **Car Parking Infrastructure** has been identified as an area of investment to deliver a range of opportunities to automate services across parking eventually removing the need for the same level of manual intervention of vehicles to ensure the service is reactive and more effective at responding parking compliance issues. The initial cost estimate for this investment is £1.3m. Customers will benefit from easier methods of payment, online access for permit applications and online appeals. Staff will benefit from upgraded systems that will streamline processes primarily through automation of current manual tasks.
- There is a request for capital funding of £7.6m for the Ness Solar Farm plus £0.5m of revenue set up costs to establish the **SESCo** (Strategic Energy Services Company). The capital funding would be in the form of a loan to the SESCO at commercial rates, with proposal to payback over 20 years.
- Within the Capital Plan an allocation of approximately £8m per annum has been made for **Condition and Suitability Projects**. This allows the council to sustain it's estate to meet the needs of service users with an ambition to maintain the estate as Category A or B condition and Suitability. Some key projects are identified in the allocation including **Northfield Pool refurbishment** (a separate outline Business Case will be brought forward on completion of feasibility studies currently being undertaken). Officers have looked at the **Balnagask Motte** in Torry and determined that this falls within the remit of the General Fund (rather than the HRA). The initial cost estimate of the works required at the Motte is £0.25m. The condition and suitability programme will be refreshed on at least an annual basis to take account of changing requirements and priorities, and is informed by the decisions of the Council's budget.
- Extending the Art Gallery project into the **public realm** will see the paved area outside the Art Gallery and Cowdray Hall enhanced with the existing footway widened and the carriageway width reduced on **Schoolhill**, thereby enhancing the customer experience. The final cost of this project is currently estimated to be £2m.
- The feasibility of an extension to **Inchgarth Community Centre** was asked for by the Council in March 2017. The purpose to provide multi-use hall and associated facilities. The feasibility study has been completed in conjunction with the Inchgarth Management Committee. Indicative costs range from £1.5m to £3m plus contingency and inflation allowance.