

REPORT TO ABERDEENSHIRE COUNCIL - 23 NOVEMBER 2017

MEDIUM TERM FINANCIAL STRATEGY UPDATE

1. Recommendations

The Council is recommended to:-

- 1.1 Consider the current position in relation to the budget setting process;
- 1.2 Agree to receive budget proposals for years 2017-22 on 8 February 2018;
- 1.3 Agree that the Medium Term Financial Strategy (MTFS) facilitates the delivery of the Council Plan.

2. Discussion

- 2.1 At the meeting of Aberdeenshire Council on 9 February 2017, a balanced revenue budget was agreed for the current financial year 2017/18 with provisional budgets agreed for 2018/19 to 2021/22. It was further agreed that work continued to balance future years of the revenue budget.
- 2.2 At this point last year, legislative requirements, policy priorities and resourcing challenges at a UK and Scottish level were highlighted as having a major impact on local government. This was borne out by the announcement in January 2017 of additional resources for Local Authorities which included support for Business Rates for local businesses. This context, within which local government continues to operate remains a dynamic one, particularly around funding levels.
- 2.3 The work that has progressed since the meeting of Council in February 2017 to balance 2018/19 and future years has been focussed on expenditure plans rather than savings plans, and in particular around the scope and standard of service that can be delivered within available resources.
- 2.4 There are clearly pressure areas that are being identified as part of this process and therefore savings options are also being identified, however, the agreement of a Council Plan with specific Priorities is key to shaping the Council's MTFS for next year and future years.
- 2.5 The framework of the MTFS, which includes the Revenue Budget, Capital Plan and Reserves, is directed by Council Priorities and supported by available resources. At this stage in the process, risk is a prevalent factor as a number of key components of both the General Fund and Housing Revenue Account budgets are not yet known with certainty. For example: the Settlement from the Scottish Government, Council Tax levels, Business Rates funding and the pay award for all employees.

3. Revenue Budget

- 3.1 A significant determinant of the Council's budget is the Revenue Support Grant (RSG) which forms part of the Scottish Government's Settlement and provides approximately 60% of the Council's funding. It is again expected that a one year settlement will be set by the Scottish Government for 2018/19, and this will be announced on Thursday 14 December 2017.
- 3.2 For the current financial year, Aberdeenshire Council has received a settlement which was reduced by 4.54% or £6.271 million from last year compared to a Scottish average of 4.8%. Aberdeenshire Council's settlement remains the third lowest out of the thirty two Local Authorities in Scotland despite maintaining relatively high growth rates in population. An analysis of demographic figures confirms that this trend is relatively constant and as such the budgeted assumption for RSG for 2018/19 is currently assumed to be at the same cash level as the current year.
- 3.3 This assumption is being tested out against economic indicators and advice received through the Scottish Directors of Finance group. A range of potential reductions are being considered and therefore a reduction in RSG is entirely possible and will be factored into the MTFs discussions.
- 3.4 Taking all the factors identified above that are yet to be finalised including demographic information, together with the key fact that the Settlement is due to be announced on 14th December 2017, explains the reason why a detailed set of budget proposals are not presented to Council at this stage.
- 3.5 It is good practice to prepare financial plans over a number of years and ideally these plans will be balanced. A series of single year settlements do not permit future income streams to be predicted with certainty. Therefore the MTFs will continue to be prepared on a five year basis for the Council meeting in February with the first year balanced and the next four years up to 2022/23 potentially out of balance but with costed expenditure plans and with estimates of income.
- 3.6 The Revenue Budget position reported in February 2017 was:

	2018/19	2019/20	2020/21	2021/22
	£000's	£000's	£000's	£000's
Expenditure	553,409	565,352	575,241	585,012
Income	540,914	542,164	543,164	544,164
Deficit	12,495	23,188	32,077	40,848

- 3.7 Once the final settlement position is known and all budget discussions are concluded, a balanced budget for 2018/19 will be presented to Council on 8 February 2018 for consideration.

4. Capital Plan

- 4.1 The second part of the MTFS is the Capital Plan which sets out the Council's priorities for delivering significant projects such as schools, roads, depots and infrastructure projects. The Capital Plan is significant in financial terms at some £985 million over the next fifteen years and significant in economic terms and has seen a very positive impact in many of our local communities.
- 4.2 A report on a revised Capital Plan will also be reported to Council on 8 February 2018.

5. Reserves

- 5.1 The third element of the MTFS is Reserves. An updated position on reserves is reported to Council each time the summary revenue budget monitoring is considered. At present a forecast total for reserves is £33 million for General Fund as at the end of this financial year. The use of these reserves is an important part of the discussions when setting a financial plan for future years.

6. Financial Context

- 6.1 One of the key risks that exists within current predictions relates to the assumed reduction in RSG. The extent of this risk will be clarified once the settlement is announced and the exact financial gap for 2018/19 known. It is likely that the actual settlement will be different from the estimated position at present. Therefore it is important that the budget work continues and includes options around assumed settlement levels, so that service delivery options are discussed and presented for approval at the Council's budget setting meeting on 8 February 2018.
- 6.2 In addition, details surrounding a further announcement on Business Rates in terms of the Barclay Review and a second year of funding for a local relief scheme are anticipated as part of the settlement.
- 6.3 The Council has significant resources and it is important to remember this when considering the scope and standard of service delivery supporting the Council Plan.

7. Community Engagement

- 7.1 During July to October, significant engagement activity was undertaken to gather views on the Council Plan 2017 – 2022. Over 1500 respondents provided comments through online surveys, with a further 200 people attending community and partner workshops. The survey findings were used to refine the Council's Priorities, and also confirmed a recognition of the need for funding to be directed towards the successful delivery of actions relating to each of the Priorities. 85% of residents and 68% of employees stated that budget should be focused to deliver the Priorities.

7.2 Given the very comprehensive engagement programme on the Council Plan during the summer, it is not felt necessary to undertake additional engagement work to support the budget for 2018/19. The data available will be used to inform the budget setting, in line with Council Priorities.

7.3 The Monitoring Officer within Business Services has been consulted in the preparation of this report and is satisfied that the report complies with the Scheme of Governance and relevant legislation.

8. Scheme of Governance

8.1 The Council is able to consider and take a decision on this item in terms of the general powers conferred by Section A of the List of Committee Powers in Part 2A of the Scheme of Governance.

9. Implications and Risk

9.1 Any staffing implications arising from the budget discussions will be assessed over the coming months to determine how these can be minimised and in consultation with employees and the Trade Unions. In accordance with agreed policies and procedures, formal consultations and negotiations with the Trade Unions will take place in relation to any proposed changes to staffing structures, HR & OD policies, and terms & conditions of employment.

9.2 Staff will be kept informed and their views will be asked for as part of the budget process.

9.3 Whilst the latest budget position has been set out in this report, there are no direct financial implications arising at this stage.

9.4 The following Risk has been identified as relevant to this matter on a Strategic Level: Balancing the Books ([*Directorate Risk Registers*](#)).

9.5 An equality impact assessment is not necessary for the purpose of this report as the recommended actions do not have a differential impact on people with protected characteristics. However, an equality impact assessment will be completed for the budget proposals presented to Council on 8 February 2018.

Alan Wood
Head of Finance