

## REPORT TO ABERDEENSHIRE COUNCIL - 22 NOVEMBER 2018

### MEDIUM TERM FINANCIAL STRATEGY

#### 1. Recommendations

The Council is recommended to:-

- 1.1 Consider the current position in relation to the Medium Term Financial Strategy (MTFS) process;
- 1.2 Agree to receive budget proposals for years 2019-24 on 14 February 2019;

#### 2. Discussion

- 2.1 Aberdeenshire Council has for some years prepared a balanced one year budget within the framework of an overall five year budget. This has mainly been because of the single year financial settlements received from the Scottish Government.
- 2.2 More recently, a Medium Term Financial Strategy (MTFS) has been prepared which draws together the Revenue Budget, Capital Plan, Reserves, Housing Revenue Account and the Carbon Budget. Whilst a single year balanced budget is still currently produced, the MTFS is a more strategic and integrated financial plan as well as being a financial representation of the Councils Priorities.
- 2.3 At the meeting of Aberdeenshire Council on 8 February 2018, a balanced revenue budget was agreed for the current financial year 2018/19 with provisional budgets agreed for the following four years. It was further agreed that work continued to balance future years of the revenue budget.
- 2.4 At this point in the preparation of a revised MTFS it is expected that a single year financial settlement will again be received. The indicative timetable for this is Monday 17 December 2018, following on from the UK Budget announcement on 29 October 2018 and the expected Scottish Budget announcement on 12 December 2018.
- 2.5 In addition to single year financial settlements, the last two years have seen late announcements of significant funding in addition to the settlement announced in December. Whilst no provision has been made in the base budget for 2019/20 for such additional money, it is a real issue for the Council to consider and factor into the MTFS process. Potential funding of the scale of the last two years i.e. £6.309 million for 2017/18 and £7.746 million for 2018/19 could be part of Aberdeenshire Councils total settlement package.

- 2.6 As stated, the framework of the MTFFS is directed by Council Priorities and supported by available resources. At this stage in the process, risk is a prevalent factor as key information relating to both the General Fund and Housing Revenue Account budgets is not yet known with certainty. For example: the financial Settlement from the Scottish Government, Council Tax levels, Council House Rent levels, Business Rates funding and the pay award for all employees this year and next year are all still to be clarified.

### **3. Medium Term Financial Strategy**

- 3.1 A development of the Medium Term Financial Strategy (MTFS) is to build on its component parts i.e. revenue, capital and Housing Revenue Account and transform these within the framework of the Council Priorities into a useable strategy that can be recognised as Aberdeenshire Council. The final strategy will draw on the results of the budget engagement exercise as well as capturing the opportunities afforded to the Council from significant resources and a strong integration of services within the Council and the wider community of Aberdeenshire.
- 3.2 Therefore, Aberdeenshire's MTFFS will develop from a series of financial statements to an integrated part of the Council's Priorities and way of working.

### **4 Revenue Budget**

- 4.1 For 2019/20 Aberdeenshire Council has currently budgeted income of £543 million and budgeted expenditure of £555 million, a budget gap of £12 million. A significant determinant of the Council's budget is the Revenue Support Grant (RSG). The RSG is part of the Scottish Government's Settlement and provides over half of the Council's income. For 2019/20 it is expected that a one year announcement will be made by the Scottish Government and that this will be made during the week beginning 17 December 2018.
- 4.2 For the 2019/20 financial year the working assumption is that the RSG and known ring fenced grants will be the same as that received in the current year. This assumption has served us well in recent years as it has proved a reasonably accurate base upon which to prioritise expenditure plans. However, as stated in paragraph 2.5, no provision has been made in the base budget for any additional grant announcements similar to those received very late on in the budget process. The difference now in terms of planning for 2019/20 is that there is a two year precedent of receiving additional late grant announcements and therefore this increased likelihood must be considered in budget discussions.
- 4.3 This assumption remains valid when considered alongside demographic indicators, historical funding trends, economic indicators and information provided from other Local Authorities where the range of assumptions on the level of budgeted grant is 0% - 3% of a reduction. However, until the final settlement position is confirmed, a range of potential scenarios will be considered including the possibility of a reduction in overall Revenue Support Grant.
- 4.4 The level of pay award for the current financial year has yet to be agreed for all staff and consequently the implications of this on 2019/20 together with next year's pay award are unknown at present. As with previous year's

budget assumptions, it is important to point out that a budget assumption for pay awards is just that: an assumption, and in no way indicates the affordability or known outcome of any negotiations. As the Council's expenditure on salary costs is a significant proportion of its expenditure, it is prudent to make a judgement on an assumed position for budget planning purposes. At present there is a 2% provision within the current year's budget and a 1% provision in next year's base budget. If pay awards of 3% for this year and next were to occur, an additional £8 million of cost could be added to next year's budget. When this is added to the initial budget gap an out of balance figure of some £20 million is arrived at.

- 4.5 In addition to this, discussions are on-going with regard to a review of base budgets and the resulting pressures and savings options arising from this review. This information is available to all Councillors and once considered, will form part of the final budget proposals for discussion and agreement at the Council meeting in February.
- 4.6 Taking account of the uncertainty on the level of RSG, the position on pay awards, ongoing discussion around pension contributions, the review of base budgets, as well as inflation, explains the reason why a detailed set of budget proposals are not presented to Council at this stage.
- 4.7 Once the final settlement position is known and all budget discussions are concluded, a balanced revenue budget for 2019/20 will be presented to Council on 14 February 2019 for agreement.

#### 4.8 **Integration Joint Board**

Aberdeenshire adult health and social care services are delivered by a partnership between Aberdeenshire Council and NHS Grampian through legislation designed to integrate health and social care. The successful integration of services is now in its third year and delivers all of the adult care services for the Council formerly known as Social Work. The local partnership arrangement is called: Aberdeenshire Health & Social Care Partnership (AH&SCP) and is overseen by the Integration Joint Board (IJB) which consists of Aberdeenshire Councillors and NHS Grampian members. The main purpose of the AH&SCP is to improve the health and wellbeing of adults in Aberdeenshire through high quality, person centred care focussing on their independence and wellbeing. This is done by prioritising some £300 million of financial resource. There are significant financial pressures on this budget, mainly driven by the rising demographic position of the area, however, in its first year, the IJB broke even and last year was out with its budget by 1%, with a similar forecast for this financial year. The IJB is updating its own Medium Term Financial Strategy document which will set out a financial plan for the next 5 years and will require discussions with all partners to agree the annual contributions needed to deliver services to the standards set by the partners.

### 5. **Capital Plan**

- 5.1 The Capital Plan is a significant statement of the infrastructure investments planned for the Council over the next fifteen years. It sets out the Council's priorities for delivering significant projects such as roads, depots, schools and infrastructure projects. The Capital Plan is significant in both financial terms and in economic terms for the area and continues to deliver a very positive impact in many of our local communities.

- 5.2 The current Capital Plan is being reviewed to more closely represent the Council Priorities whilst reflecting on affordability, deliverability and timing of the projects within the Plan. The review includes all project lines within the Plan and will focus on the project and not just individual financial years. The results of this review will be reported to Council on 14 February 2019.

## **6. Reserves**

- 6.1 Reserves have historically been discussed on an annual basis as part of the Revenue Budget report to Council. However, the Council did agree to a review of reserves and this will be completed as part of the MTFs report to Council on 14 February 2019. This review will specifically link the reserves to the other elements of the MTFs and involves an in-depth consideration of the purpose of each reserve. The strategic use of reserves is an important part of the discussions when setting a financial plan for future years.

## **7. Housing Revenue Account**

- 7.1 The Housing Revenue Account uses its budget to inform a 30 year Business Plan that models all spend within the Account. The Housing Revenue Account Business Plan core assumptions have recently been reviewed and includes Capital Expenditure of £623m over the 30 year period. This assumption is based on all stock meeting the Energy Efficiency Standards for Social Housing by 2020 and all required business as usual stock improvements (including but not limited to kitchens and bathrooms). Investment of £23m has also been identified to provide an additional 250 new build units in years 2019-22.
- 7.2 The rental strategy for the Housing Revenue Account was reported to Communities Committee on 8 November 2018 with a view to setting an affordable HRA Business Plan for the medium term. The agreed rent increases will form part of Aberdeenshire Council's budget setting process in February 2019 and will be a key element of housing services and ultimately creating opportunities for reinvestment within the business plan.

## **8. Carbon Budget**

- 8.1 On 08 February 2018 Aberdeenshire Council approved the Carbon Budget 2018/19. The budget concept allocated an allowance of 69,587 tonnes carbon dioxide equivalent (tCO<sub>2</sub>e) emissions for 2018/19 which reflects a 4000 tCO<sub>2</sub>e reduction from the 73,587 tCO<sub>2</sub>e total of 2016/17.
- 8.2 On 08 February 2018 actions were already identified for each Directorate totalling an overall 3859 tCO<sub>2</sub>e reduction. During 2018/19 further CO<sub>2</sub>e savings have been determined and developed by services.

Directorate	Reduction Target (tCO2e)	Reduction Outcome (tCO2e)
Business Services	650	734
Infrastructure Services	2500	2580.5
Education and Children Services	750	777.5
Health and Social Care	100	89
	4000	4181

8.3 Actual savings will not be confirmed until November 2019 when total emissions for 2018/19 will be completed for the Climate Change Duties Report. In some cases, full CO2e savings of actions listed will not be entirely accounted for until 2019/20 due to the timings of which projects are fully implemented.

## 9. Community Engagement

9.1 A budget engagement plan has been produced and is attached as Appendix 1 to this report. It demonstrates how previous engagement activity has shaped current and future plans and ensures as far as possible that views are taken into consideration when setting future financial plans.

9.2 The results of the engagement exercise will be reported back to Council in February and used when setting future financial plans in line with Council Priorities.

## 10. Scheme of Governance

10.1 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.

10.2 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.

## 11. Implications and Risk

11.1 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.

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

- 11.3 Whilst the latest budget position has been set out in this report, there are no direct financial implications arising at this stage.
- 11.4 The following Risk has been identified as relevant to this matter on a Strategic Level: Balancing the Books ([\*Directorate Risk Registers\*](#)).
- 11.5 An equality impact assessment is not necessary for this report as the recommended actions do not have a differential impact on people with protected characteristics. An equality impact assessment will be completed for the budget proposals presented to Council on 14 February 2019.

**Alan Wood**  
**Head of Finance**

## Appendix 1

### Budget engagement 2019/20

#### Background

Budget engagement is an important part of the budget process, providing residents with an opportunity to shape and inform the budget process. Over the last few years, much of the focus for budget engagement has been through online activity, with detailed programmes put in place to encourage residents to understand the challenges facing the council and the decisions that need to be made to deliver services within the budget available.

In 2017/18 Aberdeenshire Council held one of the most comprehensive budget engagement programmes. It reached an audience of 179,251, with a total of 12,584 clicks on social media content. This led to 2,323 individuals visiting the budget engagement page of the website, with 3,514 visits in total.

The results of that engagement programme can be found at:

<https://www.aberdeenshire.gov.uk/media/19775/budget-engagement-analysis-final.pdf>

In 2018/19 the approach made use of the extensive engagement programme that took place to form the Council Priorities.

#### 19/20 budget engagement activity

For the 2019/20 budget setting process, it is proposed to reflect back on the high-level messages from the engagements that took place in 2017/18 and 2018/19. This will be a desktop activity to map the responses previously received and align them with the savings activity that has taken place over the last 12 months. It will also look ahead to check that any new proposals to redesign services also align with previous feedback and the recent Strategic Assessment. This activity will take place prior to full council in November and will inform the public engagement activity planned between end Nov – mid Dec.

Immediately after the meeting of full council in November, we will launch a 'You Said, We Did' campaign, focused on what previous engagement activity has told us and how we've been using that data to inform our changes to existing services, and how we plan to continue using it in the future to shape the modernisation of services going forward.

We will summarise the key messages from our most recent engagement work (previous budgets, council plan, waste consultation, fees and charges reviews, the big listen) and come up with the top 10 things we have done with that information. This information can be presented as a narrative, with accompanying infographic for ease of reference.

The next section will be 'What Next?' and it will lead respondents through a series of questions on the approach taken so far, what more the community can do to help themselves and any new thoughts/suggestions.

The approach will be driven through online activity (with supporting promotional activity through traditional print and broadcast media). Paper copies will also be supplied to all libraries, area offices, and through school councils with all staff asked to promote it to customers.

The survey will close on 17<sup>th</sup> December, with analysis undertaken ready for a report by the middle of January, ready to be reported back to full council in February.

Given the budget planning currently underway, it is important to note that whilst this work will inform the budget for 2019/20, it is increasingly informing a longer-term strategic approach

by services who are developing plans for the next 2 – 3 years, using the data captured through this activity.

### **Timings**

Desktop analysis – by mid November

Infographics and narrative prepared – 22<sup>nd</sup> November

Full council – 22<sup>nd</sup> November

Engagement launch – 26 November

Promotion of activity 26 Nov – 17 Dec

Survey closes – 17 Dec

Report prepared by 11<sup>th</sup> Jan 2019