

Aberdeenshire Council 2024/25 Budget – Appendix 3A

Revenue Budget Planning Assumptions

1. Why are assumptions necessary?

- 1.1 In formulating the Medium-Term Financial Strategy (MTFS) for Aberdeenshire, it is crucial to incorporate assumptions as they form the foundation of our planning and decision-making processes.
- 1.2 These assumptions are integral to projecting future financial outcomes, evaluating risks, and allocating resources effectively to deliver on the Council's priorities. By making informed estimates about future conditions, we can assess the costs of delivering Council policies while also managing potential risks associated with fluctuating economic conditions and evolving societal needs.
- 1.3 Assumptions also serve as benchmarks for evaluating the performance of services against agreed budgets and facilitate transparent communication with stakeholders, including residents, regarding the council's fiscal objectives and priorities.
- 1.4 Regular review and updating of these assumptions are vital to ensuring the accuracy and relevance of budgetary forecasts within the MTFS framework. This approach is aimed at guiding the Council's financial strategy to deliver on its priorities while maintaining fiscal responsibility in the face of an uncertain future.
- 1.5 As a Council we understand the difficulty of forecasting in an uncertain world. We provide diverse public services that must adapt to changing demands and external factors, sometimes without a guaranteed level of future funding. To navigate this, we've created a thorough set of assumptions covering our income and expenses.
- 1.6 Details of the budget assumptions for 2024/25 and future years is provided at the end of this appendix.

2. What assumptions are reflected in this 2024/25 to 2028/29 MTFS?

1.7 Scottish Government Funding – Revenue Support Grant and Business Rates

- 1.7.1 The main source of our funding is from the Scottish Government, primarily through the Revenue Support Grant (RSG) and a portion of the national Business Rates (also sometimes referred to as Non Domestic Rates or NDR).
- 1.7.2 Although the Council collects Business Rates locally, it's pooled into a Scotland-wide fund, from which we receive income back. Therefore, local rate collection doesn't directly impact the grant we receive. The Scottish Government allocates funding to the 32 local authorities using a predetermined methodology based on various indicators.
- 1.7.3 The total amount of funding available to local government is uncertain until the Scottish Government presents its annual budget. While there continues to be a commitment to provide a multi-year financial settlement to local authorities for better planning, this hasn't materialised yet.
- 1.7.4 The recent Verity House agreement introduced a less intrusive financial funding approach, reducing the use of separate, ring-fenced allocations in favor of a more outcomes-driven relationship.
- 1.7.5 For the life of the MTFS, we assume that General Revenue Grant and Business Rates income remains flat cash.

1.8 Scottish Government Funding – Ring Fenced Grants

- 1.8.1 Following the Verity House agreement, the use of specific, ring-fenced grants is expected to decrease. In the 2024/25 Scottish Government settlement, there was a £24.144 million reduction in such grants, which are now part of the Revenue Support Grant.
- 1.8.2 In almost all cases, these funds are seen as additionality, so they specifically fund an explicit aspect of council services, assuming no change elsewhere. These funds therefore create equal and opposite additional expenditure.
- 1.8.3 Occasionally there are instances whereby the cost of delivery of the prescribed service or Scottish Government policy exceeds the funds received, with the additional costs borne by the Council if not additional funding received.
- 1.8.4 For the life of the MTFS, we assume no increase to Ring Fenced Grants.

1.9 Council Tax

- 1.9.1 As a local authority, we have a responsibility to impose a Council Tax charge on residents to support the provision of public services.
- 1.9.2 In the financial years 2022/23 and 2023/24, councils had the discretion to set Council Tax rates without limitations. In Aberdeenshire, a 3% increase was agreed upon for 2022/23, followed by a 4% increase in 2023/24.
- 1.9.3 The Scottish Government has made available £144 million to fund a freeze in Council Tax across each of Scotland's local authorities in 2024/25. The funding earmarked is equivalent to a 5% net increase in Council Tax nationally, with the expectation by Councils of it being included in future settlements.
- 1.9.4 For planning purposes, we have assumed no Council Tax increase in the coming years.

1.10 Fees and Charges

- 1.10.1 The Council offers various services to individuals, businesses, and organisations, with fees and charges serving as a significant income source and a means to achieve objectives and influence behaviors.
- 1.10.2 While we have some discretion in setting fees and charges, some charges are set nationally and there are some areas where charging for services is not allowed. Our charging policy aims to cover the cost of delivering a chargeable service.
- 1.10.3 In our assumptions for 2024/25 and future years, we plan to increase fees and charges in line with inflation to address these pressures. Details of proposed fees and charges are provided separately in **Appendices 11 and 11A**.

1.11 Pay

- 1.11.1 Pay constitutes a significant portion of our annual expenditure, accounting for approximately 50% of our net revenue budget each year.
- 1.11.2 Pay negotiations across local government are centrally conducted by COSLA on behalf of all 32 Scottish Councils. The negotiations for the 2023/24 pay award were complex and protracted, resulting in a two-stage pay award agreed upon in November 2023, with specific salary points uplifted in January 2024, retroactive to April 2023.
- 1.11.3 Modelling of scenarios for the 2023/24 pay award began in January 2023, using data from the 2022 calendar year to compare the projected costs of the various pay award offers. Due to prolonged negotiations, the data became less relevant by the time the award was agreed, contributing to a variance with actual backdated payments made in November 2023 and January 2024. The actual pay costs incurred in 2023/24 exceeded initial estimates, resulting in a difference £2.979 million which was addressed for 2023/24 and baselined for 2024/25. Thus, there is a risk associated with any pay settlement in 2024/25 exceeding the 3% budgeted within the Council's budget.

1.12 Pension

- 1.12.1 Almost all our staff are automatically enrolled in a pension scheme. Employer contributions are set by the scheme's respective administering authority. Contribution rates are obviously linked to salaries which are expected to increase, as set out above.
- 1.12.2 The Local Government Pension Scheme (LGPS) Aberdeenshire Council is a member of the North East Pension Scheme for non-teaching staff is formally valued every three years with the contribution rates to the pension fund being reset by the Pension Fund and Scheme Actuary. As a result of the North East Pension Scheme being in a surplus position, the Council is able to reduce its pension contributions, depending on the risk appetite of the Council on advice from the Pension Fund Actuaries. By setting a reduced contribution rate of 16%, compared to 19.3% in 2023/24, an annual saving of £5.820m to the General Fund could be achieved and reduced contributions over a 12-year period. The period of reduced contributions is not guaranteed and would be re-assessed at the next valuation in 3 years' time.
- 1.12.3 Employer contribution rates to the Teacher's Pension Scheme (STPS) are due to increase from 1 April 2024 by 3%, as set by the Scottish Public Pension Agency. We have estimated that this increase will equate to an additional cost of £4.67 million. The Scottish Government is expecting funding to be received as part of the Barnett consequentials following the UK Government Spring Budget which will flow through to Councils. We have therefore assumed that these additional costs will be fully funded, however, the remains an area of risk, as highlighted in the Budget Risk Register, until this is confirmed.
- 1.12.4 We have assumed a static position for STPS contributions across the life of the MTFS.

1.13 Non-Pay Costs

- 1.13.1 Non-pay inflation covers the impact of inflation on the variety of goods and services we buy.
- 1.13.2 We have used a general inflation factor of 3% to estimate the impact of costs of administration, premises and property, supplies, services, and transport.
- 1.13.3 Fuel and energy costs are subject to greater volatility, and we have assumed at 17% increase in electricity, a 10% increase in gas and a 3% increase in other energy reflecting current energy prices, this reduces in later years.
- 1.13.4 Within our scenario analysis, we have estimated the impact of changes in these assumptions and the associated potential financial risks.

1.14 PFI Contracts

1.14.1 The unitary charge relates to our Private Finance Initiative (PFI)/ Public Private Partnership (PPP) contracts. The amount paid each year includes repayment of the buildings themselves plus any associated service charges. Increases in the annual charge are contractual, based on annual contract indexation rather than general inflation.

1.15 Financing Costs and Interest Rates

1.15.1 The financing costs relate to the costs of borrowing to support the Capital Plan. The interest rates used in the 5-year budget estimates reflect the current forecast as provided by our Treasury Advisors at the time of writing the report, these costs can vary as the cash flow position and the rates at which the Council can borrow changes daily.

1.16 Integrated Joint Board Contributions

1.16.1 2024/25 contribution to the IJB comprises of existing contributions plus new funding included in the Local Government Settlement for Health and Social Care. Future years assume the same contribution annually and will be adjusted to reflect any new funding to be passported across each year. Any additional budget requests from the IJB will be considered annually as part of the Budget setting process.

1.17 Risk

1.17.1 When making any assumption there necessitates an acceptance of risk, should the reality differ from the assumption taken. Any future changes affecting these assumptions, for example, interest rates, will impact the MTFs, and mitigations will be required to be found to bring future budgets to a balanced position.

The table below provides a more concise summary of the assumptions used.

2024/25 Budget Assumptions

Budget Area	2024/25	2025/26	2026/27	2027/28	2028/29
Inflation					
- General Inflation	3%	2%	2%	2%	2%
- Contracts linked to inflation	5%	5%	5%	5%	5%
Energy					
- Electricity	17%	3%	3%	3%	3%
- Gas	10%	3%	3%	3%	3%
- Other	3%	3%	3%	3%	3%
Pay Awards					
- Local Government	3%	3%	3%	3%	3%
- Teachers	3%	3%	3%	3%	3%
Pension Contributions					
- Local Government	16%	16%	16%	16%	16%
- Teachers	26%	26%	26%	26%	26%
Fees and Charges	3%	3%	3%	3%	3%
General Revenue Funding	0%	0%	0%	0%	0%
Council Tax	0%	0%	0%	0%	0%
Integration Joint Board	2024/25 contribution to the IJB comprises of existing contributions plus new funding included in the Local Government Settlement for Health and Social Care. Future years assume the same contribution annually and will be adjusted to reflect any new funding to be passported across each year. Any additional budget requests from the IJB will be considered annually as part of the Budget setting process.				
Capital Financing Costs	Capital financing costs are based on the borrowing costs associated with delivering the proposed Capital Plan.				