

SPECIAL ANGUS COUNCIL - 2 MARCH 2023

UPDATE ON THE GENERAL FUND RESERVE AND THE PROPOSED BUDGET STRATEGY FOR THE USE OF THE RESERVE BALANCE OVER THE PERIOD 2023/24-2027/28

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

ABSTRACT

This report updates members on the General Fund Reserve position post the position reported in the Council's 2021/22 Audited Annual Accounts and sets out a proposed budget strategy for the use of the General Fund Reserve over the 5 year period from 2023/24 to 2027/28.

1. RECOMMENDATION

It is recommended that the Council:

- a. note the updated Uncommitted General Fund Reserve position post the position reported in the Council's 2021/22 Audited Annual Accounts as set out in section 4 of this report;
- b. agree that the COVID-19 Contingency Fund balance of £1.458 million be reclassified and added to a new Exceptional Cost Pressures Reserve now that the short term impact and risks from the pandemic have passed and the need for a separate COVID-19 reserve has diminished, as set out in section 4.5 of this report;
- c. approve the proposed use of the Council's uncommitted General Fund Reserve for the purposes set out in Section 5 (Table 2 of £5.205 million) and Appendix A.
- d. approve the 5 year strategy for the use of the Uncommitted General Fund Reserve of £25.800 million over the 5 year period 2023/24-2027/28 as set out in section 6 of this report and Appendix B, noting that this strategy may require revision depending on what the Council decides on the level of Council Tax for financial year 2023/24;
- e. note that the 5 year strategy set out in Section 6 can be flexed and adjusted in response to changing circumstances and will be subject to annual review as part of future years budget setting processes;
- f. note that the projected remaining Uncommitted General Fund Reserve position after all of the above recommendations are applied is £1.563 million as set out in Section 7 and Appendix B to this report.
- g. agree that the remaining uncommitted reserve of £1.563 million be held as an additional contingency and not committed for other purposes at this point in time but that it can, with member approval, be drawn from if required during 2023/24 should specific issues or risks emerge.

2. ALIGNMENT TO THE COUNCIL PLAN

2.1 This report contributes to the following strategic priorities in the Angus Council Plan, we want:

- Angus Council to be efficient and effective

3. BACKGROUND

3.1 The Council currently holds various earmarked reserves as part of the Council's longer-term financial management strategy. These reserves give the Council a degree of protection from potential risks due to unforeseen significant expenditure calls or falls in income where insufficient current revenue or capital budget provision may exist.

3.2 The Council is required to review the position and its forward plans for Reserves annually as part of its budget setting process – further detail on all reserves and proposals for these in the 2023/24 budget are included in Appendix 3 and Annex A of Report 54/23). The main Reserve of the Council is the General Fund reserve which can be used in a variety of ways including to support one-off spend or to help balance the budget overall. In addition to the General Fund Reserve the Council has a COVID-19 Contingency Reserve which was established as part of the recast budget report during the pandemic (report 211/20 refers).

4. UNCOMMITTED GENERAL FUND RESERVE

4.1 The General Fund Reserve is split between uncommitted balances (the level of funding available to Angus Council to manage financial risks and unplanned expenditure) and balances which have been committed for specific purposes. The General Fund Reserve was £56.207 million as at 31 March 2022 as reported in the Council's 2021/22 Audited Annual Accounts. Of this balance some £49.563 million was committed for specific purposes which left an uncommitted balance of £6.644 million. Since the publication of the 2021/22 Audited Annual Accounts the uncommitted General Fund Reserve has been impacted by both further contributions and commitments and they have been set out in Table 1 below.

4.2 Another significant impact on the General Fund Reserve is the proposed changes to the accounting policy for Service Concessions arrangements that are in operation in the Council as set out in Report 55/23 on this agenda. That report sets out that the ongoing benefit from applying the service concessions flexibility is £2.9 million which has been included in the Finance and Change Plan (Report 40/23) and highlighted the significant one-off benefit of £22.9 million that will be created in the General Fund Reserve at 31 March 2023 as a result of the accounting policy change.

4.3 The updated projected position on the Uncommitted General Fund Reserve is set out in Table 1 below:

Table 1- Projected Uncommitted General Fund Reserve

	£m
Uncommitted General Fund Reserve at 31 March 2022 per the 2021/22 Audited Annual Accounts	6.644
Add Additional Contributions during 2022/23	
De-Commitments from the Review of Reserves (Report 420/22 refers)	3.190
Additional Reserve De-Commitments post report 420/22 – commitments identified by officers as no longer required	1.014
Grant redetermination funding not required by Education & Lifelong Learning Service	0.252
Projected Surplus for 2022/23 (Report 14/23)	1.892
2021/22 100% Carry Forward now declared as no longer being required	0.024
Less Further Commitments during 2022/23	
Demolition Costs of Lochside Leisure Centre and Costs of Council Chamber (Report 420/22)	(0.162)
Contribution to the 2022/23 pay gap (report 420/22)	(2.906)
Additional 100% Carry Forward Requests (Report 420/22)	(0.245)
Projected Uncommitted General Fund Reserve at January 2023	9.703
Further Adjustments	
Service Concessions – One off Benefit from Accounting Policy Change (Report 55/23)	22.865
Projected Uncommitted General Fund Reserve at March 2023	32.568

- 4.4 From Table 1 above it can be seen that the updated projected Uncommitted General Fund reserve is £32.568 million. Such a significant uncommitted reserve is due to deliberate actions the Council has taken / is proposed to take to boost its reserves for the many financial challenges and risks it faces over the next few years. These actions include de-committing previously proposed expenditure, applying the service concession policy changes and curbing expenditure in the 2022/23 financial year. Such a strong reserves position enables the Council to address its short, medium and longer term financial challenges, and in particular the very large funding gap projected for the period 2023/24 to 2025/26, in a controlled and phased manner. These reserves will bring some protection in the short term to the cuts to services and jobs which would otherwise be required and buy time for the Council to deliver the substantial level of permanent budget savings which are going to be required. Section 6 of this report sets out in more detail a strategy for the use of these Reserves over the next 5 years to cover the life of the current Council.
- 4.5 The General Fund Reserve as at 31 March 2022 of £56.207 million included a COVID-19 Contingency Reserve of £1.723 million which was set up during the pandemic as a further contingency against the risks which existed at that time. There are no specific or immediate calls on this reserve and with the short term impact and risks from the pandemic now having passed the need for such a reserve has diminished. However, the make-up of this balance of £1.723 million included £0.265 million that was earmarked for ANGUSalive for loss of income during the pandemic and this continues to be earmarked for this purpose. This would leave a balance of £1.458 million. It is recommended that this balance set aside in the COVID-19 Reserve be reclassified and added to a proposed new Exceptional Cost Pressures Reserve (see Section 6 below for more detail).

5. PROPOSED USE OF GENERAL FUND RESERVE FOR 2023/24 EXPENDITURE AND PROJECTS

- 5.1 The 2023/24 revenue and capital budgets covered elsewhere on the agenda for this Council meeting require the use of uncommitted reserves to address budget issues on a one-off basis. These amount to £1.905 million. In addition it is proposed to use £0.200 million of reserves to add £0.100 million to each of the Tay Cities Deal Fund and Change Fund. These Funds support delivery of the Tay Cities Deal projects and Council Change Programme respectively and without these Funds progress would be delayed.
- 5.2 It is also proposed to use uncommitted General Fund reserves to support work and investment on a one-off basis in a small number of important areas. Further details of these proposals are included in Appendix A of this report and members are being asked to approve these in this report and as part of the overall budget for 2023/24. In total Appendix A proposes using £3.100 million of the uncommitted reserve balance.
- 5.3 Table 2 below summarises the proposed use of uncommitted reserves for the purposes listed above and members are asked to approve the use of reserves on this basis.

Table 2 – Use of Uncommitted Reserves for Budget Issues, Contributions and Specific Projects

Purpose	Value £m
To fund budget issues in the 2023/24 revenue budget on a one-off basis. £1.5m for looked after children, £90k in Facilities Management and £315k for suspension of parking charges	1.905
Contribution to Council Change Fund	0.100
Contribution to Council Tay Cities Deal Fund	0.100
Specific projects listed in Appendix A	3.100
Total Proposed Use of Reserves for 2023/24 budget	5.205

- 5.4 The uncommitted reserve of £32.568 million will reduce to £27.363 million after application of the proposed uses set out in Table 2 above.

6. PROPOSED 5 YEAR STRATEGY FOR USE OF UNCOMMITTED GENERAL FUND RESERVE

- 6.1 There are numerous options which could be considered for the use of the remaining Uncommitted General Fund Reserve of £27.363 million. This is a significant figure and the use of this needs careful consideration. It would be imprudent and financially damaging to use all of this sum in the short term to postpone or substantially reduce the scale of budget savings and cuts required as this would only exacerbate the Council's financial problems. The Reserve is a source of one-off funding so using it on a significant scale to avoid permanently reducing the Council's cost base will create a legacy which the Council may be unable to recover from.
- 6.2 The following broad principles are recommended for the use of this uncommitted General Fund Reserve:
1. It will not be used as a measure to deal with ongoing cost pressures or to avoid making permanent reductions in the Council's cost base on a significant scale
 2. It will demonstrate a prudent approach in keeping with the statutory guidance on service concessions
 3. It will balance the needs to support the current financial challenges of the Council but avoid leaving a significant negative legacy or cliff edge scenario once reserves are exhausted
 4. It will be used to support measures which will deliver savings or which deal with short term cost pressures
- 6.3 As has been well documented the Council has significant financial challenges to address over the next few years. Given this circumstance and bearing in mind the above principles members are recommended to adopt a 7 point plan covering a 5 year period as explained below. The remaining uncommitted reserves are recommended to be used for the following purposes:-

Table 3 – 5 Year Strategy - 7 Point Plan Proposals

Purpose	Value £m
1. Exceptional Cost Pressures Reserve – Energy Costs	8.0
2. Exceptional Cost Pressures Reserve – Children's Social Care	1.5
3. Expand and Extend Existing Reserves Drawdown Strategy	9.0
4. Increase Provision for Severance Costs and Staff Training	5.0
5. Funding Provision for Spend to Save Projects	1.5
6. Funding Provision for Additional Capacity to Deliver Change	0.5
7. Increase Corporate Contingency Balance	0.3
Total	25.8

- 6.4 Further detail on the recommended 7 point plan is set out in the paragraphs below and Appendix B sets out the financial impact of these recommendations for each of the 5 years. The phasing shown in Appendix B can be adjusted as required during 2023/24 and as part of each year's budget setting process.
- 6.5 Exceptional Cost Pressures Reserve – Energy Costs
Energy prices are artificially high due mainly to the Ukraine war and concerns over disruption to energy supplies. Energy prices have begun to fall back in recent weeks but remain volatile. The proposal is to fund part of the Council's increased base budget for energy costs using reserves to recognise what we would anticipate is an exceptional but hopefully temporary cost pressure. Energy costs may not reduce significantly in the short term and are unlikely to fully return to pre-Ukraine war levels but we can cushion the impact of the large rise in the Council's energy costs (nearly £3.5m for 2023/24) with a reasonable expectation that prices may begin to normalise by financial year 2026/27. If that does not happen the Council will have to address this pressure on an ongoing basis at that point. It is proposed to set aside a total of £8m into a new Exceptional Cost Pressures Reserve as set out in section 4.5 of this report, to be used to support exceptionally high energy costs over the next 3 years.

- 6.6 Exceptional Cost Pressures Reserve – Children’s Social Care
The sharp rise in the number of looked after children the Council is caring for in 2022/23 is well beyond normal trends. The cost of living crisis may be a factor. A budget issue of £3.300 million has been recommended for approval in the 2023/24 budget for this cost pressure. Rather than add the whole £3.300 million increase being seen in the current year into the base budget on a permanent basis, it is considered reasonable to take a risk that some of the cost pressure currently being experienced is temporary and will partly be addressed by Council initiatives (new children’s care homes) and will thus settle back to more normal patterns by 2025/26. It is proposed to fund £1.500 million of this budget issue from Reserves in 2023/24 (this is included in Table 2 above and set aside a further £1.500 million into the Exceptional Cost Pressures Reserve to be used to support this cost pressure in financial year 2024/25. It is hoped that by financial year 2025/26 the costs will have normalised but if this does not happen the Council will have to address this pressure on an ongoing basis at that point.
- 6.7 Taking the proposals in paragraphs 6.5 and 6.6 together will mean an Exceptional Cost Pressures Reserve of £9.5 million being created. To this will be added the COVID-19 Contingency of £1.458 million (paragraph 4.5 refers) to give a total Exceptional Cost Pressures Reserve of £10.958 million which can be drawn upon over a number of years as necessary.
- 6.8 Expand and extend the Council’s Existing Reserves Drawdown Strategy to cover the life of the current Council
The Council has for the last few years adopted a strategy to use uncommitted reserves on a reducing basis to help balance its budget. Using reserves to achieve a balanced budget is a short term solution but buys time for more permanent reductions in costs or increases in income to be found. At present the Council has £3 million set aside to help balance the budget in 2023/24 (£2 million) and 2024/25 (£1 million). It is proposed to significantly expand and extend this existing reserves drawdown strategy. The intention would still be to reduce our reliance on reserves year on year to achieve balance but to do this over a 5 year period instead of the current 2 years. This strategy will enable some cuts to be phased over the period 2022 – 2025 more sympathetically and buy time for changes to be implemented bearing in mind our capacity to deliver significant change is limited. It will enable the Council to partly cushion the impact of the current financial crisis without creating a cliff edge problem once our uncommitted reserves have run out. This is about phasing of cuts rather cuts not being required.
- 6.9 It is proposed to set aside a total of £12 million to deliver a 5 year reserves drawdown strategy of which £3m is already in place meaning a further £9 million needs to be committed for this purpose. Details of how the funds would be used over the 5 year period are shown in Appendix B. Members are asked to note that this part of the 5 year plan for reserves may require to be revised depending on what the Council decides on the level of Council Tax for financial year 2023/24.
- 6.10 To increase the Council’s provision for severance costs/re-deployment/training
The financial pressures on the Council mean that a sizeable reduction in the Council’s workforce and that of partners will likely be required over the next few years. Whilst the intention is to limit the number of direct job cuts by managing vacancies and looking at re-training and redeployment options the overall number of staff the Council employs will need to reduce. Where those reductions can’t be achieved by natural turnover there will be severance costs to be borne on a one-off basis. Severance costs including pension fund strain costs where applicable are payable even if staff opt for voluntary redundancy or voluntary early retirement. The age profile of our workforce means many staff departures even if voluntary will incur significant one-off costs even for staff on lower grades. The Council will also likely have to support severance costs in other partners such as Tayside Contracts and ANGUSalve in the years ahead.
- 6.11 In order to seek to limit the instances where severance costs are incurred it is also proposed to maximise re-training and re-deployment opportunities for staff and part of the funds proposed to be set aside would be for training to enable that to happen. It is proposed to increase the Council’s existing provision in reserves of circa £1m for severance costs by £5m and to use this provision to cover severance costs and re-training and redeployment costs where this will avoid severance costs being incurred.

- 6.12 To provide a funding source for spend to save projects
Use of uncommitted reserves to support projects which will deliver permanent savings in the revenue budget would be a prudent use of those reserves most of which has come from the service concessions accounting policy change. Some of this funding could potentially also support other priorities e.g. the transition to net zero if there was a financial payback. It is proposed to set aside £1.5 million to enable a strong pipeline of spend to save projects to be developed and brought forward. Proposed projects would be subject to member approval.
- 6.13 To provide a funding source to buy-in additional capacity for change – this may be temporary staff or specialist advisers
The scale and pace of change to deliver the savings set out in the Finance & Change Plan is a major challenge. The Council will be seeking to deliver huge and complex change at a time when its workforce has to reduce to make the savings so there will inevitably be a need to temporarily augment capacity to deliver some of those changes. It is therefore proposed to set aside £0.5 million from uncommitted reserves to allow additional capacity and specialist skills to be bought in to support achievement of the Finance & Change Plan savings targets over the next 3 years.
- 6.14 To Increase the Corporate Contingency
The existing Council policy is to hold £4.700 million as a contingency reserve within the General Fund Reserve to provide some cover against budget risks, unexpected costs and potential shortfalls in, for example, Change Programme savings targets. At present this £4.7m is equivalent to 1.5% of the Council's net revenue budget. It is proposed that this contingency is increased to £5 million as part of the reserves strategy to ensure the provision remains around 1.5% of the net budget.
- 6.15 Appendix B attached to this report sets out the Uncommitted General Fund Reserve balance projection over the 5 financial years after taking the above 5 year strategy recommendations into account. Appendix B reflects the proposals at this point in time but since this is the Council's reserves they can be reviewed and amended to suit changing needs and circumstances. Assuming Council agree all of the above the remaining projected Uncommitted General Fund Reserve would be £1.563 million.

7. FINANCIAL IMPLICATIONS

- 7.1 This report sets out the updated Uncommitted General Fund Reserve position and recommends proposals for the use of this £32.568 million including 2023/24 Budget Issues and Specific projects (section 5.3) and a 5 year strategy (section 6.3) for members approval. Table 4 below sets out a summary of the updated Uncommitted General Fund Reserve position.

Table 4 - Projected Uncommitted General Fund Reserve Balance

	Value £m
Uncommitted General Fund Reserve at 31 March 2022 per the 2021/22 Audited Annual Accounts	6.644
<u>Add Additional Contributions during 2022/23</u>	6.372
<u>Less Further Commitments during 2022/23</u>	(3.313)
<u>Add Service Concession Benefit (report 55/23)</u>	22.865
Updated Uncommitted General Fund Reserve	32.568
Less 2023/24 Budget Issues and Specific Projects	(5.205)
Less 5 Year Strategy	(25.800)
Projected Uncommitted General Fund Reserve at March 2023	1.563

- 7..2 Table 4 above sets out that the projected uncommitted General Fund Balance Reserve would be £1.563 million if all the recommendations in this report are approved.

- 7.3 In view of the significant uncertainties and financial risks which the Council faces in financial year 2023/24 caused by high inflation, ongoing pay disputes, cost of living challenges and rising interest rates it is recommended that the remaining uncommitted reserve of £1.563 million be held as an additional contingency and not committed for other purposes at this point in time. This will provide flexibility should it be required during the next financial year. It is important to stress that these are one-off funds so cannot prudently be used for anything other than one-off purposes.

8. EQUALITY IMPACT ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and a full EIA is not required as there is no impact on people, and it is a technical report concerning reserves policy.

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List of Appendices

Appendix A – Proposed Use of Uncommitted Reserve for Specific Purposes in 2023/24 Revenue and Capital Budgets

Appendix B – 5 Year General Fund Reserve Use Projection