

**SPECIAL ANGUS COUNCIL**

**2 MARCH 2023**

**PROVISIONAL 3 YEAR REVENUE BUDGET POSITION FOR 2023/24 AND INDICATIVE REVENUE BUDGETS FOR 2024/25 AND 2025/26**

**REPORT BY IAN LORIMER, DIRECTOR OF FINANCE**

**ABSTRACT**

The purpose of this report is to apprise members of the 3 year revenue budget position for the council starting with the 2023/24 provisional revenue budget position plus indicative revenue budgets for 2024/25 and 2025/26 for members to note.

**1. RECOMMENDATION**

It is recommended that the Council:

- a. notes the contents of this report and in particular the need to continue to plan and deliver sustainable savings over the medium to long term to meet the significant financial challenges which the Council faces in the next few years;
- b. note the severity of the challenge the Council faces to remain financially sustainable and the significant and unavoidable impact this will have on services to the public;
- c. note the projected funding gaps for 2023/24, 2024/25 and 2025/26 that will need to be addressed as set out in Table 2 of this report and Appendix A;
- d. note that the assumptions made for cost pressures and areas of budget risk for financial years 2024/25 and 2025/26 are based on the Council's Medium Term Budget Strategy approved in November 2022 (Report 361/22);
- e. note that the assumptions regarding budget savings and the use of Council reserves for financial years 2024/25 and 2025/26 are taken from the Finance & Change Plan (Report 40/23) and the General Fund Reserve Proposed Strategy (Report 57/23) respectively;
- f. note the potential path to a balanced budget for the 3 year period as set out on an indicative basis only in Table 4 of this report and Appendix A which shows a sizeable gap remaining of £5.338 million even after increases in Council Tax, significant savings and the use of reserves on a substantial scale;
- g. note the intention to provide this 3 year update annually to ensure the Council has a rolling 3 year revenue budget forecast.

**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 This report sets out a 3 year revenue budget position for the Council for members to note. Due to the financial challenges and funding gaps facing the Council it is essential that the Council plan its budget strategy over a rolling 3 year period and make decisions to ensure savings are planned across that 3 year period. High levels of inflation are now a major and very real threat to the Council's financial sustainability which will have far reaching consequences for the services the Council provides.

- 3.2 In considering the 3 year revenue budget position members are asked to bear in mind that the report is for noting and shows a projected position over the next 3 financial years rather than a definitive position.

#### 2023/24 Revenue Budget

- 3.3 The figures shown for financial year 2023/24 are based on the proposals and recommendations from the various reports for the special Council meeting but in relation to Council Tax and contributions to or from the Council's Reserves final decisions have yet to be made by the Council. For the purposes of this report and **for indicative purposes only** it has been assumed that Council Tax for 2023/24 will rise by 5% and that reserves will be used to help balance the budget in line with the recommended strategy set out in Report 57/23. These assumptions result in a projected surplus position which means that in finalising the 2023/24 revenue budget the Council could opt to reduce its reliance on reserves as a one-off solution to achieve a balanced budget or could apply a lower Council Tax increase than that which has been shown on an indicative basis. The Council could also opt for a Council Tax increase above the level assumed and further reduce its reliance on one-off reserves to achieve a balanced position.

#### 2024/25 and 2025/26 Revenue Budgets

- 3.4 The figures shown for these financial years are an indication of the Council's potential budget position based on a number of assumptions including the implications of the 2023/24 assumed position. Council is not being asked to formally approve these but to note the position and what it means for the Council's budget over a 3 year period.
- 3.5 An update to the projected budget position for financial year 2024/25 and 2025/26 will be provided as part of the formal budget motion at the Council meeting on 2 March 2023 once proposals regarding 2023/24 Council Tax and reserves have been put forward.

### **4. PROVISIONAL 3 YEAR REVENUE BUDGET PROJECTIONS**

- 4.1 The purpose of the projections in this report is to inform future service and budget planning and in particular to try to get an appreciation of the level of future funding gaps and the savings that may need to be made and what level of Council Tax increase and use of reserves may need to be contemplated.
- 4.2 The starting point for the 3 Year Revenue Budget is the 2023/24 Provisional Revenue Budget set out in report 54/23. This position has then been adjusted for areas of budget growth deemed unavoidable for each of the years. The majority of budget growth assumptions have been taken from the Medium Term Budget Strategy (MTBS) (report 361/22) approved by Angus Council in November 2022.
- 4.3 The 3 year revenue budget projected position is detailed in Appendix A to this report. This appendix sets out the net expenditure summary for each of the financial years. Each financial year has been adjusted for the assumptions in the MTBS, therefore the projected budget growth for 2024/25 has been added to the provisional base for 2023/24 to calculate the revised net expenditure position for 2024/25. The projected budget growth for 2025/26 has then been added to the 2024/25 position to set out the net expenditure position for 2025/26.
- 4.4 Over the last few years the projected funding gap has been addressed primarily through the Change Programme. The latest Change Programme position is set out in the Finance & Change Plan, report 40/23 to this meeting. The savings in the Change Programme are a combination of Directorate savings and Corporate Savings. The savings that relate directly to Directorates have been reflected in the Service section in Appendix A and the savings categorised as corporate have been included in the Corporate Items section. The 3 year savings from the Change Programme totalling £26.374 million are reflected in the net expenditure position for each of the financial years in Appendix A.
- 4.5 Capital Financing Cost estimates for the 3 years have been taken from the latest Long Term Affordability Model, report 60/23 to this meeting.
- 4.6 Government Grant projections for 2024/25 and 2025/26 have also been taken from the MTBS report. The projected Government Grant income has then been deducted from the Net Expenditure totals to calculate the Net Expenditure to be met from Council Tax.

- 4.7 The council tax base number for the calculation of Council Tax income increases year on year as new homes are added to the Council Tax valuation roll. This results in annual increases in the yield from Council Tax even if the Council Tax rate stays the same. Council Tax levels for 2022/23 plus income from the projected increases in the Council Tax Base are included in the Council Tax line in Appendix A. This income has then been deducted from the Net Expenditure to calculate the Projected Funding Gap for each of the financial years.
- 4.8 Report 361/22 to Angus Council on the 3 November 2022 set out an updated Medium Term Budget Strategy (MTBS) for Angus Council's General Fund Services incorporating the projected funding shortfall over the period 2023/24 to 2025/26. Table 1 below details the estimated funding gaps for the 3 year period as they were at that time.

**Table 1 - MTBS Report – Estimated Funding Gap – Baseline Position**

	2023/24 £m	2024/25 £m	2025/26 £m	3 Year Total £m
<b>Funding shortfall</b>	<b>22.861</b>	<b>13.635</b>	<b>15.395</b>	<b>51.891</b>

- 4.9 This position has now been updated following the preparation of the 2023/24 budget and Appendix A to this report sets out the Net Expenditure for the 3 financial years after the deduction of the Change Programme Savings. In order to make a like for like comparison of the funding gap position the savings need to be added back to the Net Expenditure totals. Table 2 below sets out the updated gross position based on the assumptions and risks that have been built into the 2023/24 budget and the indicative budgets for 2024/25 and 2025/26.

**Table 2 – Updated 3 Year Funding Gap**

	2023/24 £m	2024/25 £m	2025/26 £m	3 Year Total £m
Net Expenditure per Appendix A	332.446	328.866	333.021	994.333
Add back Change Programme Savings deducted from above	13.327	8.739	4.308	26.374
Add back review of charges income	0.291	0.000	0.000	0.291
Adjusted Net Expenditure	346.064	337.605	337.329	1,020.998
Government Grant Income	(261.003)	(260.727)	(260.453)	(782.183)
Council Tax Income (based on 2022/23 Band D Council Tax of £1,242.14)	(59.127)	(59.569)	(59.720)	(178.416)
<b>Projected Funding Gap before Savings, Council Tax Increase and Use of Reserves</b>	<b>25.934</b>	<b>17.309</b>	<b>17.156</b>	<b>60.399</b>

From Table 2 it can be seen that the like for like funding gap compared to the MTBS has increased by £8.508 million to £60.399 million. This increase is due to more cost pressures and budget issues affecting the 2023/24 budget than has been projected. However £3.100 million of this increase in funding gap arises from the proposed use of uncommitted reserves for one-off investments in the 2023/24 budget and this should be deducted in making a comparison with the previous estimated gap in the MTBS.

- 4.10 The funding gap position for the 3 financial years after the removal of Change Programme Savings and review of charges additional income is summarised in Table 3 below:

**Table 3 – Projected Funding Gap after Removal of Change Programme Savings**

	2023/24	2024/25	2025/26
	£m	£m	£m
Funding Gap per Table 2	25.934	17.309	17.156
Change Programme Savings	(13.327)	(8.739)	(4.308)
Review of Charges Income	(0.291)	0.000	0.000
<b>Projected Remaining Funding Gap to be met from Council Tax Increases &amp; Use of Reserves</b>	<b>12.316</b>	<b>8.570</b>	<b>12.848</b>

4.11 From Table 3 it can be seen that a significant funding gap still remains across all 3 years. The only other options available to the Council to close these remaining gaps are increases in Council Tax and use of reserves.

## 5. BRIDGING THE PROJECTED FUNDING GAP

5.1 The Council is legally required to set a balanced budget each year and this means that projected gaps need to be addressed.

5.2 Further measures available to address this funding gap are noted below and have been applied to the Net Expenditure Summary in Appendix A on an indicative basis to reduce the projected funding gap.

a) Increases in Council Tax Income - the projected funding gaps could be met from Council Tax increases. A 5% increase would yield circa £9 million over 3 years. An indicative figure of a 5% increase has been reflected in each of the financial years in Appendix A but this is solely to provide an indication of what this would mean for the Council's budget and the reliance on reserves which would then arise. For the avoidance of doubt members are not being asked to agree a 5% rise in Council Tax in any of the 3 years covered by this report.

b) General Fund Reserve Drawdown Strategy – Report 57/23 to this meeting seeks approval to significantly expand and extend the existing reserves drawdown strategy over a 5 year period rather than the current 2 year period. The values from this strategy have been added to Appendix A. Decisions made by Council on 2 March in relation to Council Tax may affect the level of reserves which need to be used to achieve a balanced budget. It is preferable to limit the extent to which reserves need to be used to achieve a balanced budget since such reserves are a one-off rather than ongoing source of funding.

c) One-Off Budget Issues – Report 57/23 seeks approval for the funding of the One-Off Budget issues from the Uncommitted General Fund Reserve and this has been included in Appendix A.

d) Exceptional Cost Pressures Reserve - Report 57/23 seeks approval for a 5 year strategy for the use of the Uncommitted General Fund Reserve and included in this strategy is the proposal to set aside a total of £9.5m into a new Exceptional Cost Pressures Reserve to support exceptionally high energy costs and children's social care costs. The drawdown from this reserve has been added to Appendix A.

e) Further Use of the Uncommitted General Fund Reserve (If available) - another option to bridge the funding gap is the use of the Uncommitted General Fund Reserve. For the purpose of this report this option has been left as a to be confirmed (TBC). Further use of uncommitted reserves beyond that recommended in Report 57/23 would be required if the Council opted for a Council Tax increase in 2023/24 of 2.7% or less. Such a course of action is not recommended.

5.3 It should be noted that use of reserves to balance the budget can only be on a one off basis and where this happens this needs to be added to the following year as a budget issue as it was only a one off solution. This adjustment has been made in Appendix A for the relevant years to ensure the correct funding gap is being reported.

- 5.4 The funding options set out in paragraph 5.2 above have been deducted from the projected funding gaps set out in Table 3 and this has reduced the projected funding gap for each financial year as set out in Table 4 below:

**Table 4 – Bridging the Funding Gap**

	2023/24	2024/25	2025/26
	£m	£m	£m
<b>Projected Funding gap after Change Programme Savings (Table 3)</b>	<b>12.316</b>	<b>8.570</b>	<b>12.848</b>
<b>Path To a Balanced Budget</b>			
Indicative Increase in the Council Tax Base Income	(0.442)	(0.151)	(0.298)
Indicative Council Tax Increase @ 5%	(3.000)	(6.000)	(9.000)
Reserves Drawdown Strategy – report 57/23	(3.500)	(3.000)	(2.500)
Use of General Fund Reserve – One Off Budget Issues – Report 57/23	(1.905)	0.000	0.000
Use of General Fund Reserve – One Off Investments – Report 57/23	(3.100)	0.000	0.000
Use of Exceptional Cost Pressures Reserve	(2.000)	(5.500)	(2.000)
<b>Adjustment for Previous Years one-off Solutions</b>	<b>0.000</b>	<b>5.500</b>	<b>8.500</b>
<b>Projected Funding Gap / (Surplus) after options</b>	<b>(1.631)</b>	<b>(0.581)</b>	<b>7.550</b>
<b>Cumulative Funding Gap / (Surplus)</b>	<b>(1.631)</b>	<b>(2.212)</b>	<b>5.338</b>

- 5.5 From Table 4 it can be seen that a surplus position is projected for 2023/24 and 2024/25 but a large funding gap remains for 2025/26. Given the surplus position for 2023/24 this allows consideration to be given to setting a lower council tax or a lower use of reserves or a higher council tax and no use of reserves. It should be noted that the use of reserves is one off and if significant amounts are drawn down to balance the budget this merely creates a funding gap issue in the following financial year.

- 5.6 Table 4 shows that over the 3 year period there is a cumulative budget gap of £5.338m. While on the face of it that level of remaining gap might seem potentially manageable it is important to point out that this gap is after having applied the following significant measures over the 3 year period:-

- An assumed 15% increase in Council Tax
- Achievement in practice of Change Programme savings targets of over £26m
- Use of Reserves of more than £23.5m

**In other words even if the Council can achieve its £26 million of savings targets, decides to increase Council Tax by 15% over the 3 years and uses more than £23.5 million of Reserves it will still have a funding gap of £5.3m to address which is equivalent to a further 9% increase in Council Tax if no other options can be found.**

- 5.7 The projected 3 year budget set out in this report shows the scale of the challenge facing the Council. Savings on the scale estimated to be required cannot be achieved without real and far-reaching changes and reductions to the number and level of services provided by the Council.

## 6. FUTURE BUDGET RISK/UNCERTAINTIES

- 6.1 During the course of preparing the 3 Year Revenue Budget Strategy some areas of risk and/or strategic priority have been identified that will undoubtedly impact on the council in future years and which may need further investment. It should be noted that this report is based on assumptions and as highlighted in the MTBS and Background report there are a great many risks and uncertainties facing the Council in the next few years.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 There are no additional financial implications for the Council arising from the recommendations in this report.

## **8. EQUALITY IMPACT ASSESSMENT**

- 8.1 An Equality Impact Assessment is not required as this report has no impact on people and it is reflective, setting out budget funding gap projections for future years for members to note.

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List of Appendices

Appendix A – 3 Year Net Expenditure Summary and Projected Funding Gap