

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 29 FEBRUARY 2024

**PROVISIONAL REVENUE & CAPITAL BUDGET – BACKGROUND REPORT AND SETTING OF
THE 2024/25 COUNCIL TAX**

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

1. ABSTRACT

- 1.1 The purpose of this report is to apprise Members of the background to setting the Revenue and Capital Budgets for 2024/25 and sets out the summary position of the 2024/25 Provisional Revenue Budget and the 2023/2028 Capital Plan. The report also appraises members of the further steps that are required with regard to the setting of the Council Tax for 2024/25.

2. ALIGNMENT TO THE COUNCIL PLAN AND COUNCIL POLICIES

- 2.1 This report contributes as a whole to the delivery of the Council Plan.

3. RECOMMENDATIONS

- 3.1 It is recommended that the Council:

- (i) note that the Angus Council Revenue Grant Support allocation for 2024/25 has been provisionally estimated at £273.170 million, as set out in Table 1;
- (ii) note the other issues pertinent to the budget and the key assumptions and risks as set out in Sections 6 of this report;
- (iii) note the total budget issues (unavoidable cost/demand pressures) as set out in Columns C & D of the Summary Statement of Net Expenditure at Appendix 1 that have been added to the 2024/25 Provisional Base Budget, the detail of which has been reported in the Directorate budget reports on this agenda;
- (iv) note the total Change Programme Savings as set out in Column E of the Summary Statement of Net Expenditure at Appendix 1 that have been deducted from the 2024/25 Provisional Base Budget, the detail of which has been reported in the Directorate budget reports and Finance & Change Plan;
- (v) note the total review of charges additional income as set out in Column F of the Summary Statement of Net Expenditure at Appendix 1 that has been deducted from the 2024/25 Provisional Base Budget, the detail of which has been reported in the Directorate budget reports;
- (vi) note the 2024/25 net estimated revenue expenditure of £344.910 million for Angus Council attached at Appendix 1;
- (vii) agree that an allowance of 1.75% for non-collection of the Council Tax be used in the council tax setting calculations;
- (viii) note the summarised 2023/2028 Capital Plan position as set out in Appendix 2, the detail of which has been reported in the Directorate budget reports;
- (ix) note the position on the Council's other Reserves as set out in Appendix 3;
- (x) note that the figures in Table 2 setting out how the budget can be balanced is for illustrative purposes only;
- (xi) note the content of Appendix 3a which shows potential alternative options for achieving a balanced budget on an illustrative basis;

- (xii) note that the figures in Table 3 and Appendix 4 setting out the Council Tax Calculation and 2024/25 Band D Council Tax are for illustrative purposes only pending final decisions to be made at the Council meeting;
- (xiii) note that the figures in Appendix 3 setting out the earmarked reserve position are for illustrative purposes only pending final decisions to be made at the Council meeting and incorporate the recommendations made in Report 65/24 (Update on The General Fund Reserve and The Proposed Budget Strategy for the Use of The Reserve Balance Over the Period 2024/25-2027/28);
- (xiv) note that the Band D Council Tax for the Angus Council area will be determined at the Angus Council meeting along with the use of Reserves which may be required to achieve a balanced budget; and
- (xv) note the implications arising from the further correspondence received on 21 February 2024 regarding the local government grant settlement as outlined in paragraphs 4.9 to 4.12 and agree that, if and when any additional funding arising from this correspondence is confirmed, a report be brought back to the Policy & Resources Committee so that members can consider how that additional funding should be used.

4. BACKGROUND

- 4.1 Reference is made to Report 228/23 submitted to the Policy & Resources Committee on 29 August 2023 which set out the approach and timetable for the preparation of the 2024/25 revenue and capital budgets. Members will be aware that the local government grant settlement forms part of the Scottish Government's overall budget for 2024/25. Angus Council's Distributable Revenue Grant Support allocation for 2024/25 has been provisionally set at £267.106 million as detailed in Finance Circular (FC) 8/2023 issued on 21 December.
- 4.2 The Council's grant allocation is conditional upon the Council agreeing to deliver on some specific commitments (see below) as specified by the Scottish Government in Finance Circular 8/2023.
- 4.3 For 2024/25 the full funding package from the Scottish Government includes:
 - £950.9 million of funding that has now been baselined in to the General Revenue Grant, as part of commitments under the Verity House Agreement to review ring-fenced funding;
 - An additional £230 million to deliver the payment of £12 per hour minimum pay settlement for adult social care workers in commissioned services via agreed contract uplifts;
 - An additional £11.5 million to support the uprating of Free Personal and Nursing Care rates;
 - An additional £6 million to support the expansion of the Free School Meals policy;
 - An additional £6.8 for Discretionary Housing Payments;
 - £145.5 million to support additional teachers and support staff;
 - £242 million to support teacher pay uplifts (2023/24 pay deals); and
 - £266.2 million of resource to support local government pay (2023/24 pay deals).
- 4.4 The 2024/25 Scottish Government Draft Budget also made available £147 million to fund a freeze in Council Tax across each of Scotland's 32 local authorities. The Finance Circular reported that the funding earmarked was equivalent to a 5% net increase in Council Tax nationally, taking into account the average rise to Council Tax in 2023/24. However, in Angus our estimated funding value equates to less than a 5% increase (4.5%) on the 2023/24 Council Tax. This is due to an adjustment applied in the Government's calculation in relation to the higher costs of Council Tax Reduction awards Councils would need to bear if they had applied a 5% increase.
- 4.5 The grant allocation includes funding which needs to be set aside as it is either known or can be reasonably assumed will relate to specific costs or new initiatives which will incur additional costs in 2024/25. This includes additional funding associated with the 2023/24 pay deals. These items need to be deducted in order to compare the revenue grant position on a like for

like basis and assess what grant funding is available to meet the updated costs of existing service provision and new budget issues. What this all means for Angus Council is summarised in table 1 below.

Table 1 – Distributable Revenue Funding Comparison

	2024/25 £m	2023/24 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Distributable Revenue Funding (per Finance Circular and subsequent announcements)	264.022	255.938	8.084	3.2
Estimated funding yet to be distributed	6.064	6.035	0.029	
Conditional Funding – Teacher Numbers	3.084	0.000	3.084	
Total Revenue Funding per Circular for Budget Setting	273.170	261.973	11.197	4.3
Estimated funding to be paid out with the finance settlement	0.034	0.000	0.034	
Total Revenue Funding	273.204	261.973	11.231	4.3
New/Additional Funding to be Earmarked/Unearmarked *				
Angus Council (£5.9m of which is 23/24 pay funding)	(6.876)		(6.876)	
AHSCP	(5.121)		(5.121)	
Total New/Additional Funding to be Earmarked	(11.997)		(11.997)	
Adjustments to Specific Grant in base expenditure	(0.006)		(0.006)	
TOTAL REVISED REVENUE FUNDING (excluding Council Tax Freeze Grant)	261.201	261.973	(0.772)	(0.3)

* - The detail of the allocations of grant for specific funding were provided in Appendices of the Finance Settlement and detailed working tables which were issued.

- 4.6 Table 1 shows an initial increase in government grant funding of £8.084 million (3.2%) per Finance Circular 8/2023 issued in December 2023 and subsequent announcements regarding Teacher Numbers which is now conditional funding. This figure has been adjusted for amounts not included in the Finance Circular which the Council now expects to be allocated. The most significant of which relates to Adult Social Care to deliver the payment of £12 per hour minimum pay settlement to workers in commissioned services. The figure has also been adjusted to reflect the Teachers Numbers grant which is now being held back. After adding in the funding yet to be distributed this gives a total estimated grant allocation for budget setting purposes of £273.170 million. The grant figures shown are provisional pending agreement of the Local Government Finance Order through the Scottish Parliament.
- 4.7 A large part of this increase in grant funding is however either ring-fenced or is for specific additional spending commitments the council must implement such as the 2023/24 staff pay deal and the continued expansion of Free School Meals. Angus Council must also pass just over £5.1 million of this additional funding to the Angus Health and Social Care Partnership on a ring-fenced basis. After allowing for these areas of grant which are therefore committed there is a reduction in the core revenue grant on a like for like basis of £0.772 million (0.3%). This compares to an assumed reduction of £0.873 million in the Medium Term Budget Strategy for 2024/25 and therefore means a marginally better position than projected by £0.101 million.
- 4.8 This year as part of the finance settlement for 2024/25, the Scottish Government has confirmed that they are expecting Council's to freeze the Council Tax at 2023/24 levels. The Scottish Government Budget confirmed that funding of £147 million for all Scotland would be provided. This funding has not been included in the finance settlement as individual local authorities have to decide if this offer is going to be accepted. The share of this funding offer for Angus Council is £2.841 million.

Further Correspondence from the Scottish Government (21 February 2024)

- 4.9 Discussions between Scottish Government Ministers and COSLA Officer Bearers have been ongoing for a number of weeks regarding the 2024/25 grant settlement. These discussions have resulted in a conditional offer of further funding for local government being made.
- 4.10 A letter from the Deputy First Minister (DFM) and Cabinet Secretary for Finance dated 21 February 2024 stated that the Government is prepared to “commit that, subject to the overall funding position improving following the UK Government’s Spring Budget on 6 March, the Scottish Government will not only pass through to local government the £45 million expected as a result of the recent announcement on ring-fenced Adult Social Care funding in England, and any consequentials received for increased teacher pension contributions, but we will also increase the local government General Revenue Grant by a further £17.7 m.”
- 4.11 The letter would in total result in an increase in funding of £62.7 million at an all Scotland level, this being the figure which COSLA has stated in their briefings on the Scottish Budget was the level of funding cut applied in the 2024/25 local government grant settlement.
- 4.12 While the offer of additional funding is welcome the letter makes clear that it is conditional on there being a positive impact on the Scottish Budget arising from the UK Government Spring Budget on 6 March and at the time of writing there remains some dubiety about whether the additional funding offer will be impacted in any way by decisions Councils make regarding the Council Tax freeze. As such, at the time of writing this report, there is no guarantee that additional funding will be received, whether it would be baselined nor whether it may be impacted by decisions to freeze the Council Tax. This means that the additional funding referred to in the DFMs letter cannot at the time of writing this report competently be taken into account for the purposes of the Council setting its 2024/25 budget. Should this position change a verbal update will be provided at the Special Council meeting.
- 4.13 Based on current information it is therefore recommended that, if and when any additional funding arising from the commitment in the DFMs letter is confirmed, a report be brought back to the Policy & Resources Committee so that members can consider how that additional funding should be used.

5. CURRENT POSITION

- 5.1 Service base budgets have been prepared on an incremental basis using the 2023/24 budget as a starting point, allowing for those items of budget growth deemed allowable (unavoidable) in accordance with the Director of Finance’s guidance. Base budgets have been reviewed by officers for accuracy and adequacy through a technical validation process (Budget Submission Review meetings).
- 5.2 Appendix 1 sets out a summary of the Council’s net expenditure position for 2024/25 based on the provisional base budgets, budget issues, review of charges and savings recommendations for each service.
- 5.3 Budget spending levels are determined by the amount of revenue resources that are available to the Council. These resources comprise general revenue grant support from the Scottish Government and income raised locally through Council Tax and other fees and charges. In addition, the Council may supplement these resources on an ad-hoc basis by taking money from the Council’s Reserves (if available). It is a statutory requirement for the Council to set a balanced budget meaning its budgeted expenditure must be matched by budgeted income. The amount of income (funding) the Council has available therefore determines how much can be spent.

6. PROPOSALS

- 6.1 It is not possible to confirm the total budget resources expected to be available to the Council for 2024/25 until key decisions on the setting of the Council Tax have been made (e.g. provision for non-collection & contributions to/from the Council’s Reserves). These issues are covered in more detail in section 6.49 of this report.
- 6.2 In the absence of such Council Tax decisions, assumptions have been made as to the likely level of resources so as to inform decisions regarding budget savings. On the basis of the Net

Expenditure as detailed in Appendix 1 a shortfall of income over expenditure of £71.740 million will exist in 2024/25, of which £2.516 million is one-off. This assumes approval of the budget issues (columns C & D), the change programme savings proposals (column E) and review of charges income (column F). This assumes no increase in the Council Tax Charge (which will be decided at the Special Council meeting) and does not take into account the expected increase in Council Tax base due to new houses coming on to the Council Tax Register of £0.350 million.

- 6.3 The Council's Change Programme is again intended to deliver as much of the savings as possible for the 2024/25 budget. All of the savings proposals are detailed in the individual Directorate budget reports. Further details are also shown in the Finance and Change Plan (Report 49/24). The Change Programme is expected to deliver savings of £6.523 million (this includes Review of Charges) whereof £0.365 million relates to the Angus Health and Social Care Integration Joint Board. Those Change Programme savings for the Angus IJB have been deducted from the budget allocation shown in Appendix 1. Directorate savings of £5.090 million have been deducted from the relevant Service budget in Appendix 1 with the remaining Change Programme savings of £1.068 million deducted in the Corporate Items section.
- 6.4 The audited Uncommitted General Fund Reserve was £2.522 million as at 31 March 2023. Report 65/24 on this agenda, Update on the General Fund Reserve and the Proposed Budget Strategy for the use of the Reserve Balance over the Period 2024/25-2027/28 provides an update on this position and recommends proposals for the use of the General Fund Reserve over the 4 year period 2024/25-2027/28 which if implemented would leave an uncommitted General Fund Balance of £0.286 million.
- 6.5 Other Issues Pertinent to the 2024/25 Revenue Budget
The following issues are also relevant to the consideration of the 2024/25 Provisional Revenue Budget set out in this report
- 6.6 Angus Health & Social Care Partnership (IJB)
The Statement of Net Expenditure at Appendix 1 shows that the Council's proposed budget allocation to the IJB is £74.725 million. The 2024/25 finance settlement included £241.5 million for Health and Social Care budgets and the estimated Angus share, £5.121 million, has been included in the £74.725 million in Appendix 1. The £74.725 million also includes a £0.650 million allocation of Scottish Government funding for pay costs. Members are asked to note that the Angus IJB is due to meet on 21 February 2024 to consider its budget. The proposed budget allocation from Angus Council will be noted as provisional and subject to confirmation at the Council's budget setting meeting. The IJB can't finalise its budget until the Council's proposed budget has been confirmed and ultimately both the Council and IJB need to reach agreement on the proposed budget.
- 6.7 Budget Issues (Unavoidable Cost/Demand Pressures)
Through the budget process a number of areas were identified where an unavoidable increase in budget is required in 2024/25 or where investment in service provision was considered to be necessary. These were discussed and reviewed in detail by officers and the PBSG.
- 6.8 Excluding the IJB budget pressures a total of £6.640 million is recommended for approval, comprising £2.516 million one-off issues and £4.124 million issues on an ongoing basis. The recommended budget issues totals are set out in Column C & D of Appendix 1 and the detail of the budget issues are included in the Directorate Budget reports on this agenda.
- 6.9 Provision for Significant Costs pressures
The 2024/25 budget makes provision for additional cost pressures or specific issues and the most significant are as follows:
- Pay Award 2024/25 - a sum of £5.804 million has been allowed for to cover pay inflation and other wage related pressures arising in 2024/25 and is based on an increase of 3%. In the event that pay deals are settled at a level higher than has been budgeted for and assuming no further additional funding support for this is provided by the Scottish Government it will be necessary to identify compensating savings elsewhere in the Council's budget to pay for these. These compensating savings will inevitably have to include further reductions in staffing since this is the Council's largest cost.

- Other Services – includes a provision of £0.300 million for additional burdens. This provision will be used if required to meet any unexpected budget issues arising during 2024/25 which cannot be managed via service budgets. Also included in Other Services are - the Council Tax Reduction Scheme budget which has been increased by £0.350 million to take account of increased costs in providing support to eligible taxpayers; Interest on Revenue Balances, based on the current rate of interest the Council can earn on temporary surplus cash this budget has been reduced by £0.125 million to £2.600 million. Other Services also includes the ongoing saving from the Council's use of the Service Concessions policy change, as reported to Angus Council in March 2023, report 55/23 refers.
- As part of the 2023/24 budget setting a significant increase of £3.5 million was made to the Council's energy budget. The Council has been facing significant increases in energy costs during 2023/24, however based on current projections for 2023/24 spend it is anticipated that no increase in the energy budget is required for 2024/25.
- Provision for non-pay inflation and other risks – the Council faces a number of risks and uncertainties in financial year 2024/25 including non-pay inflationary impacts on the prices charged by Tayside Contracts and an increase in the Council's non-domestic rates costs due to an increase in the rate poundage set by the Scottish Government. The Council also faces numerous risks connected with inflation on contracts which could exceed the amounts assumed in the Directorate budget issues. A provision of £2.325 million is being provided to provide cover for these multiple issues and budget risks.

6.10 Review of Charges

As part of the budget guidance issued by the Director of Finance, Directorates were asked to provide the impact on charges for each 1% increase in charges. The Council's current policy for the review of charges is to apply a Council wide RPI increase (based on the July index from the previous year). This policy applies as a default or starting position but can and has been varied for specific charges. The RPI at July 2023 was 9% but in recognition of the pressures on the Council's budget it is recommended to apply a 10% increase across almost all Council charges for 2024/25. The additional income generated from increasing charges has been included in the Finance & Change Plan. Although a 10% increase is proposed, the majority of the charges are rounded up to the nearest 10 pence and this could therefore potentially take the increase over 10% in some cases. Members are referred to the Directorate budget reports on the agenda which include review of charges proposals and the separate reports for the AHSCP and ANGUSalve which are proposing a different approach than the 10% increase. A summary of the net financial impact (additional income) from the proposed review of charges has been reflected in column F of Appendix 1.

6.11 Specific Grants Netted off within Services

As part of the Scottish Budget announcements Angus Council's share of the ring fenced grants is £3.939 million. Pupil Equity Fund (£2.310m), Criminal Justice Social Work (£1.630m) and Gaelic (£0.004m) make up this sum. Early Learning & Childcare Expansion is no longer treated as a Specific Grant (£10.521m) and has been transferred to the core revenue grant as set out in Circular 8/2023.

6.12 Specific Grant for Teaching Staff – Conditional Funding

Subsequent to the Finance Circular being released in December 2023 the Scottish Government advised of its intention (via a letter from the Cabinet Secretary for Education and Skills on 12 February 2024) to move £145.5 million of funding from core revenue grant to specific grant. The specific grant will only be payable to Councils if they comply with Government expectations on maintaining teacher numbers.

Government officials are to confirm the final grant conditions but for the purposes of the Council's 2024/25 budget setting it is assumed these conditions will be no more onerous than the previous expectation of maintaining teachers and support staff numbers at 2022 Census levels. The budget proposals included in the Education and Lifelong Learning Directorate budget report (Report 51/24) although not without some risk are expected to still enable the Council to comply with the 2022 Census position. Accordingly the Council's budget assumes Angus Council's share of the £145.5m (£3.084 million) will be received.

- 6.13 Pension – Employers Contribution Rate Decrease – Non-Teaching Staff
Angus Council is a member of the Tayside Pension Fund. Following an actuarial it has been confirmed that the employers pension contribution rate will be decreased from 17% to 15.4% from 1 April 2024. It is estimated that this reduction will generate an annual saving of £1.100 million and this has been included in the net expenditure summary at Appendix 1.
- 6.14 Pension – Employers Contribution Rate Increase – Teaching Staff
An increase in the employer rate of contribution for teaching staff pensions is expected to apply in financial year 2024/25. Based on information received from the UK and Scottish Governments it is expected that the additional costs arising will be fully funded by additional government grant. The Council's proposed budget for 2024/25 therefore assumes no net additional cost arising.
- 6.15 Capital Financing Costs (Loan Charges)
The separate Long Term Affordability (Report 68/24) outlines that the provision for capital financing costs within the 2024/25 revenue budget is considered sufficient to meet the commitments as contained in the proposed capital budget. However, it should be noted that any material amendment to the capital budget for 2024/25 would almost certainly necessitate amendment to the Prudential Indicators and could require amendment of the capital financing costs budget provision. Any amendment to the capital financing costs budget would also have consequences in respect of the overall revenue budget for 2024/25.
- 6.16 Surplus Local Tax Income & MOD Council Tax Income
A budgeted allowance of £0.234 million has been included in the budget summary at Appendix 1 in respect of Surplus Local Tax Income and Council Tax income on Ministry of Defence (MOD) properties. The delivery of the surplus local tax income will be dependent upon continued good performance on Council Tax collection by Finance officers and is not necessarily guaranteed.
- 6.17 Council Tax – Policy on Long Term Empty Properties and Second Homes
Committee report 57/19 to the Special Budget Meeting of Angus Council on 21 February 2019 approved the recommended change to the Current Long Term Property Policy. This recommended that from 1 April 2019 the funds raised on long term empty properties and second homes be split 75% General Fund and 25% Affordable Housing Rent Account (AHRA). The existing budget provision of £0.250 million was made but has been increased for 2024/25 by £0.250 million to £0.500 million based on a review of historic trends. The £0.500 million has been included in the net expenditure summary at Appendix 1.
- 6.18 Tayside Valuation Joint Board /Tayside Contracts Joint Committee
The 2024/25 revenue budget for the Tayside Valuation Joint Board was agreed at the Board meeting on 22 January 2024. Angus Council's budgeted share of the Joint Board's net expenditure is £0.817 million, excluding Electoral Registration Services which are budgeted for separately within Other Services.
- 6.19 The 2024/25 revenue budget for the Tayside Contracts Joint Committee has yet to be determined. The Angus share of the total estimated surplus for 2024/25 has not been changed from the 2023/24 estimate of £0.250 million.
- 6.20 The appropriate allocations to Angus Council in respect of the Joint Board and Joint Committee have been allowed for in the net expenditure summary in Appendix 1.
- 6.21 Summary Budget Position
Table 2 below summarises the total budget gap and sets out the measures that can be used to address the gap. The section shaded green reflects the recommendations from officers regarding Change Programme Savings, etc. The section headed "For Illustrative Purposes Only" and shaded blue shows how a balanced budget could be achieved if the Council agreed to freeze the Council Tax and accept the grant on offer for that purpose. For the avoidance of doubt officers are not making a specific recommendation on whether to accept the Council Tax freeze grant or not and that is why part of the Table is for illustrative purposes only. It will be for elected members to determine at the Special Council meeting how a fully balance budget will be achieved.

Table 2 – Balancing the 2024/25 Revenue Budget

	Ongoing £m	One-Off £m	Total £m
Gross Funding Gap (including Recommended Budget Issues)	12.603	2.516	15.119
Less Change Programme Savings	(6.158)	0.000	(6.158)
Less Change Programme Savings - AHSCP	(0.365)	0.000	(0.365)
Less Estimated Council Tax yield/tax base growth (based on historic trends)	(0.350)	0.000	(0.350)
Less Use of General Fund Reserve Drawdown Strategy (Report 65/24) – Ongoing to help balance the budget*	0.000	(2.889)	(2.889)
Less Use of Exceptional Cost Pressures Reserve (Report 65/24) – One off Budget Issues	0.000	(1.728)	(1.728)
Less Use of General Fund Reserve – One off Budget Issues	0.000	(0.788)	(0.788)
Adjusted Gap Before Council Tax and Further Contributions to/from Council Reserves	5.730	(2.889)	(2.841)
FOR ILLUSTRATIVE PURPOSES ONLY			
Council Tax Freeze Grant Income from Scottish Government **	(2.841)	0.000	(2.841)
Adjusted Funding Gap (If Council Tax freeze grant accepted)	2.889	(2.889)	0.000
Net Position (must be nil to achieve balanced budget)	2.889	(2.889)	0.000

*- this is the level of reserves required to achieve a balanced budget but the final amount of reserves to be used will be determined at the Council meeting as part of deciding on the level of Council Tax.

-Council Tax Freeze Grant Income of £2.841 million has been included in the table for **illustrative purposes only, as a decision on whether to accept this funding or to reject and to increase Council Tax is a policy decision for members.

6.22 The figures set out in Table 2 above show one option on how to achieve a balanced budget for 2024/25, however other options are available depending on Council Tax increases applied for the year and the use of the General Fund Reserve. Appendix 3a to this report sets out 3 other possible options on how the funding gap could be addressed, again for illustrative purposes only.

6.23 Key Assumptions & Risks

The Council has a statutory duty to set a “balanced” budget each year taking into account the estimates of its expenses and incomes for the period. As members will appreciate all budgets are, by definition, only a best estimate and therefore carry a degree of uncertainty and risk. It is important to assess each year’s proposed budget from the perspective of the risk inherent and the resilience of that budget to changing circumstances. Levels of budget risk are higher than historic levels because of high inflation and the cumulative effects of pressures on the Council’s budget as explained in the Council’s corporate risk register.

6.24 Management of Budget Risks in General

The management of budget risk is integral to the Council's approach to budget setting and critically no Service Director is required to accept a budget which they don't believe is capable of delivery. There are however 4 main elements to the management of budget risks by the Council which are worth highlighting as described below:

- Assessment of Budget Issues

The Council's budget process ensures that all significant budget issues that require investment can be raised by Services and discussed and assessed by both officers and members prior to the budget being set. A process of risk assessment is applied through the budget process so that if resources don't allow budget issues to be recognised in full there is an understanding of how much risk is involved in taking such a decision.

- Savings Capable of Delivery

The Change Programme is the primary route through which savings in budgets are being identified and delivered. Change Programme projects are at different stages in their life cycle with some complete and being implemented and others requiring further work to finalise where the savings will come from in the existing budgets.

At the point of setting the 2024/25 revenue budget the overall risk to delivery of the 2024/25 Change Programme savings target is considered to be at a medium level reflecting the scale of further savings being targeted and the challenges to delivery of some of those. Should it arise the Council has reasonable contingency funds to manage the risk of some savings targets not being achieved during 2024/25.

- Provision for Inflation

Inflation and other pressures on costs caused by demand or changing circumstances are a key consideration of each year's budget process and for 2024/25 inflation is considered a significant area of risk and uncertainty. In broad terms the Council does not normally provide for the effects of general inflation within the budget but rather provides additional resources where these are needed for specific spending pressures (as identified through the budget issues process). Significant additional provisions for the effects of inflation have been included in the 2024/25 proposed budget as described earlier in this report.

The effects of inflation on budgets will be monitored closely and reports to the Policy & Resources Committee during the year will highlight any areas of concern. Contingency provisions within the Council's reserves provide a degree of one-off protection from inflation risks should these exceed what has been budgeted for.

- Contingencies

Another critical element of the Council's management of budget risk is the availability of contingencies both within the budget and in reserves. A contingency in the Council's reserves of £5 million is being recommended for the 2024/25 budget and this is considered adequate when viewed alongside other elements of reserves which are being earmarked but could if required to be reassigned to deal with unforeseen expenditure. A contingency of £5.312 million has also been built into the proposed capital budget.

Within the revenue budget itself the Council holds a contingency sum of £0.300 million in the provision for additional burdens budget within Other Services.

6.25 Pay Risks

The 2024/25 revenue budget is being set against a backcloth of significant uncertainty in relation to pay and potential pay increases. At the time of writing this report the pay deal for both teaching and non-teaching staff for financial year 2024/25 is still to be negotiated. The 2024/25 revenue budget presented in this report assumes the deal will be finalised without additional cost to the Council beyond the 3% budgeted on the basis that this is already at the limits of what the Council can afford. This represents an area of risk until a deal is reached.

6.26 In the event that pay costs which require to be funded by the Council turn out to be more than has been provided for in the Council's 2024/25 revenue budget it will be necessary to use reserves as a temporary one-off fix to address this and increase the savings and cuts to services which will be required into 2025/26 to afford such additional costs on an ongoing basis.

6.27 In summary as author of this report I am content, based on the information and assurances provided by Change Programme project leads regarding savings delivery and my discussions with the Chief Executive and the Council Leadership Team, that the proposed 2024/25 revenue budget although extremely challenging is realistic and achievable. I also believe that reasonable contingency provision has been or will be made in both the budget and through Council Reserves which will deliver a budget which has a degree of resilience to deal with changes in circumstances or additional cost pressures which might arise during 2024/25.

6.28 Background – General Fund Capital Budget 2024/25

Capital budget preparation guidance was issued by the Director of Finance outlining the procedures to be followed in the preparation of the 2023/2028 Capital Plan and the 2024/25 capital budget and services were required to submit capital plans based on an approved list of priority projects, as well as details of proposed new priority projects.

6.29 Table 3 below, details the various meetings at which the capital budget strategy, issues relating to specific capital projects, capital plan submissions and new priority project bids were considered.

Table 3 – Capital Budget Strategy Meetings

Policy & Budget Strategy Group	23 November 2023, 18 January 2024, 1 February 2024
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6.30 A programme of long-term funding strategy measures has been developed which is intended to maintain levels of capital expenditure into the future. Report 68/24 on the long term affordability of the General Fund capital plan provides more detail of the measures which have been developed.

6.31 Capital Resources

The 2023/2028 Capital Plan, incorporating the 2024/25 capital budget, has been prepared under the self-regulating Prudential Code regime. Under the Prudential Code the level of capital expenditure is not the key influence within the setting of the capital plan, rather the affordability and sustainability of the revenue budget consequences of capital investment decisions (including any subsequent impact on the Council Tax) are the major factors. The 2023/2028 Capital Plan has been prepared in this context and further information relating to the Prudential Code is contained in Report 69/24.

6.32 2024/28 Local Government Finance Settlement

Finance Circular 8/2023 (issued on 21 December 2023) provided details of funding allocations for 2024/25, these are provisional pending agreement of the Local Government Finance Order. No definitive information is available for 2025/26 onwards. Table 4 below, details Angus Council's capital support for 2024/25.

Table 4 – 2024/25 Capital Grant Settlement

Funding Source	2024/25 £m
General Capital Grant (including Arbroath Flood Prevention £0.518 million)	8.873
Specific Capital Grant - Cycling, Walking and Safer Streets	0.503
Total Capital Grant	9.376

6.33 Total capital grant for 2024/25 from Scottish Government has declined by 9.7% when compared to 2023/24. Given the unexpected cut to capital grant funding for 2024/25 and the huge pressures on the Council's revenue budget, finance officers have reviewed the assumptions in the long-term affordability assessment and in particular the interest rates being assumed. The Council's current strategy of deferring new borrowing until interest rates fall means the interest cost (and rate) payable on our total borrowing will fall in the short term and

reduces the cost of loan charges and allows more borrowing in the current 5 year capital budget period than would otherwise be considered affordable.

6.34 The revisions to the long-term affordability assessment mean that headroom for new borrowing of £9.5 million can be available for the 2024/25 capital budget process despite the cut in capital grant.

6.35 Key Points of Note for Capital Budget Setting

The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 Edition) requires the production of a capital strategy, the purpose of which is to demonstrate that an authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. Angus Council's capital strategy for 2024/25 is presented in Report 67/24.

6.36 The annual allowances for core maintenance and similar regular requirements have been increased by £1.255m for each year of the Capital Plan and £5.020m over the life of the 2023/2028 Capital Plan. These annual allowances have not been increased for at least 5 years whilst construction inflation has risen by 27.7% over the same period and therefore inflation has severely eroded the spending power of those core allowances. These increases are included in the Directorate Budget Reports on this agenda.

6.37 In preparing the 2024/25 capital budget existing projects have been reviewed and additional resources are recommended for a small number of new high priority capital projects / programmes, which are now included in the Directorate Budget Reports on this agenda.

- £0.160m for road adoption at Orchardbank Business Park
- £0.300m for digitalisation/automation of processes and use of emerging technology
- £0.200m for data foundations and data architecture investment
- £1.000m for street light replacement
- £0.170m for general vehicle replacement programme
- £1.000m for Western Cemetery extension

6.38 Monifieth Learning Campus

At an estimated gross capital cost of £66.5 million (reducing to some £58.1 million once anticipated developer's contributions and other funding has been taken into account) and spread over financial years 2021/22 to 2027/28, the replacement of Monifieth High School still remains a significant investment and long term financial commitment in the 2023/2028 Capital Plan.

6.39 2023/2028 Capital Plan (Incorporating the 2024/25 Capital Budget

The 2023/2028 Capital Plan details, for the General Fund, the total cost and phasing of the priority capital projects to be undertaken by Angus Council over the next four years. These costs are shown on an outturn basis, i.e. including an allowance for inflation. The capital expenditure on each departmental capital programme is differentiated, for budget planning purposes, between that which is anticipated to be legally committed (LC) by 31 March 2024 and that which is not yet anticipated to be legally committed (NYLC) by 31 March 2024.

6.40 Appendix 2 provides a summary of the provisional directorate capital budgets for 2024/25 as contained in the Directorate Budget Reports and shows an estimated net capital expenditure of £56.824 million. Appendix 2 also shows that after the inclusion of the agreed contingency and removal of the oversubscription level built into the programme, as well as the application of corporate capital receipts, corporate Capital Funded from Current Revenue (CFCR) and general Scottish Government capital grant, the funding of the provisional capital budget will require new borrowing (before the application of assumed slippage) of £46.252 million in 2024/25.

Setting of the Council Tax charge

6.41 This section of the report outlines the main financial considerations and the steps necessary to set the Council Tax charge.

- 6.42 After applying the recommended 1.75% allowance in 2024/25 for non-collection to the latest Council Tax Base estimate figure for Angus Council (see Table 5 below), this increases the Band D Equivalent properties from 47,957 to 48,223 an increase of 266 and this would increase Council Tax income by £0.350 million based on the current Council Tax charge.
- 6.43 The Scottish Government grant offer for 2024/25 includes additional grant funding if Council's take the decision to freeze Council Tax at 2023/24 levels. For information purposes each 1% increase in Council Tax would yield additional gross income of approximately £0.635 million based on the updated tax base of 48,223. In net terms after allowing for the impact on Council Tax Reduction costs each 1% increase would yield approximately £0.570 million.
- 6.44 Uncommitted General Fund Reserve at 31 March 2024
Report 65/24, Update on the General Fund Reserve and the Proposed Budget Strategy for the use of the Reserve Balance over the Period 2024/25 – 2027/28 on this agenda sets out an updated position on the Projected Uncommitted General Fund Reserve at 31 March 2024 of £4.486 million and seeks approval for a revised 4 year reserves strategy totalling £16.889 million which would leave a projected uncommitted General Fund Reserve balance of £0.286 million. Report 65/24 asks for members agreement for this sum of £0.286 million to be held as an additional contingency in the Exceptional Cost Pressures Reserve for future budget risks.
- 6.45 It should be borne in mind, however, that the projected year-end position for the current financial year included in the projected Uncommitted General Fund Reserve workings cannot be assessed with certainty until the 2023/24 accounts of Angus Council have been prepared. It should also be noted that the actual balance on the General Fund Reserve at the end of 2023/24 will undoubtedly be in excess of the uncommitted sum noted above on the basis that it will include a number of explicit expenditure commitments into 2024/25 such as budget carry forwards and earmarked resources. In addition, experience has shown that projected outturn estimates can potentially change significantly in the last two months or so of the financial year depending on prevailing weather conditions, particularly in respect of roads winter maintenance, heating costs, and so on.
- 6.46 Assessment of Council Reserves
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 over the longer term from potential risk due to unforeseen significant expenditure calls where insufficient current revenue or capital budget provision may exist. In accordance with the Chartered Institute of Public Finance and Accountancy's LAAP Bulletin 99 "Local Authority Reserves and Balances" as issued in 2014 a Statement of Earmarked Reserves is attached at Appendix 3. This statement provides details of the various earmarked reserves the Council holds, the purpose of each reserve and the anticipated balance on each reserve as at 1 April 2024. Recommendations regarding the replenishment or draw down from these various funds and reserves are provided in Appendix 3 whilst the latest projected balances on those funds is given in Annex A of Appendix 3. This information is provided to help inform decisions with regard to the level of contributions to be made to / from reserves and balances.
- 6.47 Balancing the 2024/25 Revenue Budget
Table 2 of this report identifies for illustrative purposes only how a balanced budget can be achieved which is based on the assumption that the Council Tax Freeze grant offer is accepted and no Council Tax increase is applied. This position includes the one off funding gap options recommended in report 65/24 including the use of £5.405 million of Reserves to narrow the budget gap on a one-off basis.
- 6.48 Allowance for Non-Collection of Council Tax
Despite Angus Council's strong record of collecting Council Tax an element of non-collection of Council Tax will exist and it is considered prudent to make a non-collection allowance to recognise this. The allowance for non-collection agreed by the Council last year in setting the 2023/24 Council Tax was 1.75% and it is proposed that the same allowance of 1.75% is used for 2024/25 as officers believe a collection rate of 98.25% is still achievable despite the cost of living crisis.
- 6.49 Balance of 2024/25 Estimated Net Expenditure to be met from Council Taxes
The Council Tax Calculation Statement has been drafted based on figures set out in this report and is attached at Appendix 4. This calculation is for **illustrative purposes only** and no recommendations are being made. A summary is given in table 5 below:

Table 5 – Council Tax Calculation (For illustrative Purposes Only)

	£m	£ m
Net Expenditure (per Appendix 1)		344.910
<u>Deduct</u> :Total Revenue Grants from Scottish Government per circular 8/2023	(264.022)	
Funding yet to be distributed	(6.064)	
Conditional Funding – Teacher Numbers	(3.084)	
Total		(273.170)
Net Expenditure to be met by Council Tax (Before Contributions to/(from) Council Reserves)		71.740
<u>Deduct</u> : Contribution from Council Reserves		(5.405)
Deduct: Council Tax Freeze Grant		(2.841)
Net Expenditure to be met by Council Tax (after contribution from Council Reserves and Council Tax Freeze Grant)		63.494
Tax Base for Council Tax Calculation Purposes (@ 98.25% collection)* if the Band D Council Tax were £1 it would yield £48,223 of income		48,223
2024/25 Band D Council Tax Based on the above. (2023/24 charge was £1,316.68)		£1,316.68

6.50 Council Tax Valuation Bandings

The Council is required to set the Council Tax based on Valuation Band D. The Council Tax Charge for properties in the other Valuation Bands is calculated with reference to Band D based on a formula set down in legislation. The Valuation Bandings used in the calculation of Council Tax are shown in Appendix 5 for information. These bandings are set by legislation not by Angus Council.

7. FINANCIAL IMPLICATIONS

- 7.1 There are no additional financial implications for the Council beyond those set out in the body and appendices of this report. Members should however note that any changes to the indicative budget proposals set out in this report which have financial implications will impact onto the Council's overall budget and the basis for achieving a balanced budget.

8. RISK MANAGEMENT

- 8.1 The following risks from the Corporate Risk Register are relevant to this report.

- Financial Sustainability
- Transforming for the Future

9. ENVIRONMENTAL IMPLICATIONS

- 9.1 There are no environmental implications for the Council arising from the recommendations in this report.

10. EQUALITY IMPACT ASSESSMENT, HUMAN RIGHTS AND FAIRER SCOTLAND DUTY

- 10.1 An Equality Impact Assessment is not required for this specific report. Equality Impact Assessments have been included in the Directorate budget reports where required and an overall Assessment covering the Council's budget as a package has also been prepared (Report 64/24 refers.)

11. CONSULTATION

11.1 The Chief Executive and Director of Legal, Governance & Change have been consulted on this report.

NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to a material extent in preparing the above report are:

- Finance Circular 8/2023 issued by the Scottish Government

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List of Appendices:

- Appendix 1 - Statement of Net Expenditure 2024/25
- Appendix 2 - Provisional Capital Budget (Summary)
- Appendix 3a - Options to Address the Funding Gap
- Appendix 3 - Statement of Earmarked Reserves
- Appendix 3 - Statement of Earmarked Reserves – Annex A
- Appendix 4 - Council Tax Calculation Statement
- Appendix 5 - Council Tax Valuation Bandings