

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 29 FEBRUARY 2024

**PROVISIONAL 3 YEAR REVENUE BUDGET POSITION FOR 2024/25 AND INDICATIVE
REVENUE BUDGETS FOR 2025/26 AND 2026/27**

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

1. ABSTRACT

- 1.1 The purpose of this report is to apprise members of the 3 year revenue budget position for the council starting with the 2024/25 provisional revenue budget position plus indicative revenue budgets for 2025/26 and 2026/27 for members to note.

2. ALIGNMENT TO THE COUNCIL PLAN AND COUNCIL POLICIES

- 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. RECOMMENDATIONS

- 3.1 It is recommended that the Council:

- (i) 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;
- (ii) 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;
- (iii) note the options to balance the budget for 2024/25 and projected funding gaps for 2025/26 and 2026/27 that will need to be addressed as set out in Table 2 of this report and Appendix A;
- (iv) note the assumptions made for cost pressures and areas of budget risk for financial years 2025/26 and 2026/27 are based on the Council's Medium Term Budget Strategy approved in December 2023 (Report 353/23) adjusted for known changes since then;
- (v) note that the assumptions regarding budget savings and the use of Council reserves for financial years 2024/25, 2025/26 and 2026/27 are taken from the Finance & Change Plan (Report 49/24) and the General Fund Reserve Proposed Strategy (Report 65/24) respectively;
- (vi) 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 £9.573 million even after increases in Council Tax, significant savings and the use of reserves on a substantial scale;
- (vii) note that the 3 year position set out in this report will be subject to change depending on what elected members agree as their final proposals for the 2024/25 budget including Council Tax and Reserves decisions;
- (viii) note the intention to provide this 3 year update annually to ensure the Council has a rolling 3 year revenue budget forecast.

4. BACKGROUND

4.1 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 and the cost of living crisis have had a major and very real impact onto the Council's financial sustainability which will have far reaching consequences for the services the Council provides.

4.2 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. The position shown in Appendix A will be subject to change depending on what elected members agree as their final proposals for the 2024/25 budget including Council Tax and Reserves decisions.

4.3 2024/25 Revenue Budget

The figures shown for financial year 2024/25 are based on the proposals and recommendations from the various reports for the special Council meeting but in relation to contributions to or from the Council's Reserves final decisions have yet to be made by the Council.

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. For the purposes of this report and **for illustrative purposes only** it has been assumed that the Council Tax Freeze grant offer from the Scottish Government will be accepted and that reserves will be used to help balance the budget in line with the recommended strategy set out in report 65/24.

An indicative 5% increase to Council Tax has been applied to financial years 2025/26 and 2026/27. The assumptions included for 2024/25 result in a balanced budget, however the Council could decide not to accept the Council Tax Freeze funding offer which is shown on an illustrative basis, apply a higher Council Tax increase above the level assumed and reduce the reliance on one-off reserves to achieve a balanced position.

4.4 2025/26 and 2026/27 Revenue Budgets

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 2024/25 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.

4.5 An update to the projected budget position for financial year 2025/26 and 2026/27 will be provided as part of the formal budget motion and amendments at the Council meeting on 29 February 2024 once proposals regarding the 2024/25 Council Tax and reserves position have been put forward.

5. CURRENT POSITION

5.1 Provisional 3 Year Revenue Budget Projections

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.

5.2 The starting point for the 3 Year Revenue Budget is the 2024/25 Provisional Revenue Budget set out in report 63/24, Appendix 1. This position has then been adjusted for areas of budget growth deemed unavoidable for each of the years and Change Programme Savings. The budget growth assumptions have been taken from the Medium Term Budget Strategy (MTBS) (report 353/23) approved by Angus Council in December 2023 adjusted for known changes since then such as revisions to capital financing costs and employers pension savings.

- 5.3 The projected 3 year revenue budget projected position is detailed in Appendix A to this report. This appendix sets out the movement to calculate the net expenditure position for each of the financial years.
- 5.4 The 2024/25 provisional budget has been adjusted for the following to calculate the Provisional Budget for 2025/26:
- Removal of the one off 2024/25 Budget Issues
 - Add in the budget growth for 2025/26 from the assumptions in the MTBS model
 - Deduct 2025/26 Change Programme Savings
- The Provisional 2025/26 Budget has then been adjusted for the following to calculate the Provisional Budget for 2026/27:
- Add in the budget growth for 2026/27 from the assumptions in the MTBS model
 - Deduct 2026/27 Change Programme Savings
- 5.5 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 49/24 to this meeting. The savings in the Change Programme are a combination of Directorate savings and Corporate Savings. The savings that relate to Directorates have been reflected in the Services 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 £13.030 million are reflected in the net expenditure position for each of the financial years in Appendix A.
- 5.6 Capital Financing Costs estimates for the 3 years have been taken from the latest Long Term Affordability Model, report 68/24 to this meeting.
- 5.7 Government Grant projections for 2025/26 and 2026/27 have been assumed as the same as 2024/25 and then adjusted for by the MTBS assumed reductions. 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.
- 5.8 The council tax 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 2023/24 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.
- 5.9 Report 353/23 to Angus Council on the 14 December 2023 set out an updated Medium Term Budget Strategy (MTBS) for Angus Council's General Fund Services incorporating the projected funding shortfall over the period 2024/25 to 2026/27. 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

	2024/25 £m	2025/26 £m	2026/27 £m	3 Year Total £m
Funding shortfall	20.797	14.208	14.887	49.892

- 5.10 This position has now been updated following the preparation of the 2024/25 budget and after the adjustments set out in section 5.4 have been made. As part of the preparation of the 2024/25 Capital Budget finance officers undertook a review of the assumptions in the long term affordability model assessment. The review concluded that the budget provision requirement for annual Capital Financing Charges could be reduced to £10.5 million going forward and doing this will generate additional savings for the 3 financial years compared to what had been assumed in the MTBS estimated funding gap of £49.892 million.

- 5.11 In order to make a like for like comparison of the updated funding gap position and the MTBS position the Change Programme 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 2024/25 budget and the indicative budgets for 2025/26 and 2026/27.

Table 2 – Updated 3 Year Funding Gap

	2024/25 £m	2025/26 £m	2026/27 £m	3 Year Total £m
Net Expenditure per Appendix A	344.910	342.797	345.014	1,032.721
Add back Change Programme Savings deducted from above	6.523	4.477	2.030	13.030
Adjusted Net Expenditure	351.433	347.274	347.044	1,045.751
Government Grant Income	(273.170)	(272.894)	(272.620)	(818.684)
Council Tax Income (based on 2023/24 Band D Council Tax of £1,316.68)	(63.144)	(63.494)	(63.594)	(190.232)
Projected Funding Gap before Savings, Council Tax Increase and Use of Reserves	15.119	10.886	10.830	36.835

From Table 2 it can be seen that the like for like funding gap compared to the MTBS has decreased by £13.057 million to £36.835 million. As explained in section 5.9 part of this decrease is due to the change in the assumptions now made for Capital Financing Costs going forward (£6.4m). In addition to this the Employers Pension Contribution Rate reduced to 15.4% (£3.3m) and cost pressures and budget issues for the 2024/25 budget have now been updated as part of the 2024/25 budget process which also impacts on the movement (£3.3m). 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

	2024/25 £m	2025/26 £m	2026/27 £m	3 Year Total £m
Funding Gap per Table 2	15.119	10.886	10.830	36.835
Change Programme Savings	(6.523)	(4.477)	(2.030)	(13.030)
Projected Remaining Funding Gap to be met from Council Tax Increases & Use of Reserves	8.596	6.409	8.800	23.805

- 5.12 From Table 3 it can be seen that a significant funding gap still remains across all 3 years. The options available to the Council to close these remaining gaps are increases in Council Tax (or Council Tax freeze grant in 2024/25 only), further cuts to services (beyond those in the current Finance & Change Plan) and use of reserves.

6. PROPOSALS

6.1 Bridging the Projected Funding Gap

The Council is legally required to set a balanced budget each year and this means that projected gaps will need to be addressed as part of the budget setting process for each year.

- 6.2 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.

- Increases in Council Tax Income - the projected funding gaps could be met from Council Tax increases. As noted above the indicative figures for 2024/25 assume the offer of grant funding to freeze council tax levels is accepted. However, if this offer was not accepted Council Tax increases could be made. A 5% increase would yield circa £8.6 million over 3 years. An indicative figure of a 5% increase has been reflected in 2025/26 & 2026/27 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.

- General Fund Reserve Drawdown Strategy – As part of the 2024/25 budget setting the Council's existing reserve strategy has been reviewed and updated and the recommendations of this new 4 year reserve strategy are set out in Report 65/24. The values from this proposed strategy have been added to Appendix A. Decisions made by Council on 29 February 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 and permanent solutions to funding gap will eventually need to be found.
- One-Off Budget Issues – Report 65/24 seeks approval for the funding of the One-Off Budget issues of £2.516 million from the Uncommitted General Fund Reserve and this has been included in Appendix A.
- Further Use of the Uncommitted General Fund Reserve (If available) - another option to bridge the funding gap is further use of the Uncommitted General Fund Reserve if funds are available. Report 65/24 on this agenda sets out the projected uncommitted General Fund Balance at 31 March 2024 as nil after setting out a balanced budget for 2024/25 so for the purpose of this report this option is limited to that sum in Appendix A for 2025/26 & 2026/27.

6.3 The use of reserves to balance the budget provides a one off solution for that year and where this happens this needs to be added to the following year as a budget issue as it was only a temporary solution to the underlying funding gap. This adjustment has been made in Appendix A for the relevant years to ensure the correct funding gap is being reported.

6.4 The funding options set out in paragraph 6.2 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

	2024/25	2025/26	2026/27
	£m	£m	£m
Projected Funding gap after Change Programme Savings (Table 3)	8.596	6.409	8.800
<u>Path To Balancing the Budget</u>			
Indicative Increase in the Council Tax Base Income	(0.350)	(0.100)	(0.100)
Council Tax Freeze Grant (illustrative purposes)	(2.841)	0.000	0.000
Indicative Council Tax Increase (Council Tax @ 5% for 25/26 & 26/27 (net of CTR impact)	0.000	(2.841)	(2.984)
Reserves Drawdown Strategy – report 65/24 - Ongoing	(2.889)	(3.000)	(2.500)
Exceptional Cost Pressures Reserve – report 65/24 - One Off Budget Issues	(1.728)	(0.000)	(0.000)
Use of General Fund Reserve – One Off Budget Issues – Report 65/24	(0.788)	(0.000)	(0.000)
Adjustment for Previous Years one-off Solutions	n/a	2.889	3.000
Projected Funding Gap / (Surplus) after options	0.000	3.357	6.216
Cumulative Funding Gap / (Surplus)	0.000	3.357	9.573

6.5 From Table 4 it can be seen that an indicative balanced budget has been set out for 2024/25, and a deficit position is projected for 2025/26 and 2026/27.

6.6 Table 4 also shows that over the 3 year period there is a cumulative budget gap of £9.573 million. 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 14.5% increase in income from a combination of Council Tax increases and Council Tax freeze grant (2024/25)

- Acceptance and achievement in practice of Change Programme savings targets of over £13m
- Use of Reserves of just under £11m

In other words even if the Council can achieve its £13 million of savings targets, decides to increase Council Tax and accept the freeze grant to a value of a 14.5% increase over the 3 years and uses just under £11 million of Reserves it will still have a funding gap of £9.6m to address which is equivalent to a further circa 17% increase in Council Tax if no other options can be found.

6.7 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 beyond those already implemented in previous years.

6.8 Future Budget Risk/Uncertainties

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. 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 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.

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 A – 3 Year Net Expenditure Summary and Projected Funding Gap