

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 29 FEBRUARY 2024

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

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

1. ABSTRACT

- 1.1 This report updates members on the General Fund Reserve position post that reported in the Council's 2022/23 Audited Annual Accounts and sets out a proposed budget strategy for the use of the General Fund Reserve over the 4-year period from 2024/25 to 2027/28.

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) note the updated Uncommitted General Fund Reserve position post that reported in the Council's 2022/23 Audited Annual Accounts as set out in Appendix A to this report;
- (ii) approve the proposed use of the Council's Uncommitted General Fund Reserve of £2.811 million for the purposes set out in Section 6 and included in Appendix A;
- (iii) approve the 4 year strategy for the use of the Uncommitted General Fund Reserve of £16.889 million over the 4 year period 2024/25-2027/28 as set out in Section 6 of this report and Appendix A, noting that this strategy may require revision depending on what the Council decides on the level of Council Tax for financial year 2024/25;
- (iv) note that the 4 year reserve strategy 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;
- (v) note that the projected remaining Uncommitted General Fund Reserve position after all of the above recommendations are applied is £0.286 million as set out in Section 6 and Appendix A to this report; and
- (vi) agree that the remaining Uncommitted General Fund Reserve of £0.286 million be held as an additional contingency in the Exceptional Cost Pressures Reserve and not committed for other purposes at this point in time but that it can, with member approval, be drawn from if required during 2024/25 should specific issues or risks emerge.

4. BACKGROUND

- 4.1 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.

4.2 The Council is required to review the position and its forward plans for Reserves annually as part of its budget setting process and further detail on all reserves and proposals for these in the 2024/25 budget are included in Appendix 3 and Annex A of Report 63/24. 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 core General Fund Reserve the Council has (as a sub-set of that main Reserve) an Exceptional Cost Pressure Reserve which was established as part of the 2023/24 budget setting, report 57/23 refers.

5. CURRENT POSITION

5.1 The Council's current policy is to hold a £5 million contingency fund within its General Fund Reserve to meet unforeseen costs and issues which may arise during the financial year and it is proposed that this policy remain unchanged for 2024/25. 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 £71.214 million as at 31 March 2023 as reported in the Council's 2022/23 Audited Annual Accounts. Of this balance some £68.692 million was committed for specific purposes which left an uncommitted balance of £2.522 million (See Appendix A). Since the publication of the 2022/23 Audited Annual Accounts the uncommitted General Fund Reserve has been impacted by both further contributions and commitments and they have been set out in Appendix A. A review of existing commitments has also been undertaken. From Appendix A it can be seen that the updated Uncommitted General Fund Reserve Balance projected to exist at 31 March 2024 is £4.486 million.

6. PROPOSALS

6.1 In setting the 2023/24 budget the Council agreed a 5 year Reserves Strategy covering the period 1 April 2023 to 31 March 2028 which included setting aside reserves for a number of purposes over the 5 year period. A comprehensive review of the existing Reserves Strategy has been undertaken and this report presents that updated Strategy covering the remaining 4 years to 31 March 2028. Set out in the following paragraphs are the proposals for the use of Reserves associated with the new 4 year Strategy.

6.2 One Off Budget Issues

The draft budgets for each Council Directorate include a number of budget issues which are expected to be one-off in nature and it is therefore proposed that £0.788 million of these one-off budget issues are funded from the Core General Fund Reserve. In addition, a budget issue totalling £1.728 million in relation to Looked After Children affecting the Children, Families and Justice Directorate is considered to be due to exceptional circumstances and accordingly is proposed to be funded from the Exceptional Cost Pressures Reserve. A sum of £1.5 million had already been set aside for this purpose in the 2023/24 Reserves Strategy and it is necessary to increase the use of this Reserve by £0.228 million to cover the expected cost.

6.3 1% Contingency on risk of Inflation on Budget Issues

The draft budgets for each Council Directorate include a number of budget issues which are expected to be of an ongoing nature and which are linked to inflation. The level of inflation which will apply is uncertain and so assumptions have been made in the proposed Directorate budgets. Recognising the unpredictability of inflation at present it is proposed that a contingency of 1% on those budget issues linked to inflation which totals £0.172 million is set aside in the Core General Fund Reserve to cover risks in this area.

6.4 Contingency on Risk – Children, Families & Justice Budget Issue

It is proposed to take an element of risk in the cost of continuing care provision for 2024/25 but to recognise that the timing of care arrangements ending is uncertain it is proposed to hold a contingency of £0.200 million to provide some protection against those uncertainties.

6.5 Bellwin Scheme Claim – Storm Babet

The Council must meet the first £0.573 million of its Bellwin Scheme claim and it is proposed that this is funded from the Exceptional Cost Pressures Reserve.

6.6 Reinstatement of the Council's Insurance Fund – Storm Babet

The Council's Insurance Fund has also been impacted by an estimated £1 million from Storm Babet and needs to be reinstated given that the Council continues to self-insure many of its assets and is expected to face higher premiums as a result of recent storms and claims arising. It is proposed that this £1 million is funded from the Core General Fund Reserve.

6.7 Storm Babet Provision

Report 300/23 approved that a provision of £0.250 million be set aside as a commitment in the General Fund Reserve to cover any costs of responding to the Storm that might arise during 2023/24 before the Bellwin Scheme claim was submitted. After review of the costs to date it is proposed that the provision of £0.250 million is reduced by £0.150 million to £0.100 million. To date only £0.025m of this provision has had to be used because of the availability of other funding sources.

6.8 Transfer from Exceptional Cost Pressures Reserve

The Exceptional Cost Pressures Reserve was established in the 2023/24 budget in part to manage exceptionally large but hopefully relatively short term increases in energy prices. The latest financial projections suggests that prices and costs have stabilised at a lower level than expected such that a significant amount of the Reserve can be de-committed. It is also the case that other calls on the Core General Fund Reserve (as described in the paragraphs above) exceed the funding available. Accordingly it is proposed that £3.190 million is transferred from the Exceptional Costs Pressures Reserve to replenish the Core General Fund Reserve.

6.9 Summary Position

The proposals in paragraphs 6.2 to 6.7 have been set out in Appendix A. Taking all of those into account gives a Projected Uncommitted General Fund Reserve Balance (including Exceptional Cost Pressures Reserve) of £1.675 million (See Appendix A) before any further review of the existing Reserves Strategy and commitments are made through the 2024/25 budget setting.

6.10 Review and Update of Existing Commitments

Officers have reviewed the commitments for specific items agreed in setting the 2023/24 budget which total £15.5 million (£5 million for Severance/Staff Training/Staff Redeployment Costs, £2 million for Spend to Save Projects, etc & £8.5 million for the Reserve Drawdown Strategy). A number of revisions to the provision for those specific items are now proposed.

The main change is to increase the Reserves Drawdown Strategy from £8.5m to £10m. This is the funding used to help balance future budgets and it is proposed to extend this strategy so that more funding is available in financial years 2025/26 to 2027/28 in recognition of the continued huge pressures on the Council's finances and the significant funding gaps projected into future years. The revised Drawdown Strategy would be as follows:-

2024/25 = £2.889 million
2025/26 = £3 million
2026/27 = £2.5 million
2027/28 = £1.5 million
Total over 4 years = £9.889 million

Increasing the Drawdown Strategy by £1.389 million requires downward revision to the amount set aside for other purposes and it is therefore also being proposed that the Severance/Training/Redeployment provision is reduced by £1.5 million from £5 million to £3.5 million. The provision for Spend to Save and additional capacity which together amounted to £2 million is proposed be reduced by £0.5 million to £1.5 million. Finally it is also proposed that £0.466 million is transferred from the Core General Fund Reserve to the Exceptional Cost Pressures Reserve which will create a balance of £2 million on this reserve.

6.11 Revised Reserve Strategy - Summary

The new 4 year Reserve Strategy arising from all of the above proposals is set out in Table 1 below and Appendix A:

Table 1 – Proposed Commitments for the new 4 Year Reserve Strategy

Exceptional Cost Pressures Reserve	Severance/Staff Training/Staff Redeployment	Spend to Save and Additional Capacity	Reserve Drawdown Strategy	TOTAL
£m	£m	£m	£m	£m
2.000	3.500	1.500	9.889	16.889

After applying this proposed 4 year strategy this would leave a residual uncommitted balance on the Core General Fund Reserve of £0.286 million which is being recommended to be added to the Exceptional Cost Pressures Reserve as an additional contingency.

7. FINANCIAL IMPLICATIONS

7.1 It is being recommended that a new 4 year Reserve Strategy is created for the period 2024/25 to 2027/28 which proposes that £16.889 million is committed in the Reserve Strategy as set out in Table 1 above, leaving a residual balance on the Core General Fund Reserve of £0.286 million which is being recommended to be added to the Exceptional Cost Pressures Reserve as an additional contingency.

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 direct environmental implications arising from the recommendations of this report.

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

10.1 A full Equality Impact Assessment is not required for this report as it does not impact on people and it is a technical report concerning reserves policy.

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 – Update on the General Fund Reserve Position & Proposed Reserve Strategy