

**ANGUS COUNCIL**

**RESOURCES AND CENTRAL SERVICES COMMITTEE**

**29 JANUARY 2004**

**SUBJECT: 2004/05 GENERAL FUND REVENUE AND CAPITAL BUDGETS :  
IMPLICATIONS OF GOVERNMENT GRANT ANNOUNCEMENT AND BUDGET  
PREPARATION PROGRESS UPDATE**

**REPORT BY THE DIRECTOR OF FINANCE**

**ABSTRACT: The purpose of this report is to advise Members of the implications for Angus Council arising from the 2004/05 Local Government Finance Settlement. The report also provides an update on the progress being made in preparing the 2004/05 revenue and capital budgets.**

**1. RECOMMENDATION**

The Committee is asked to :-

- a) Note the contents of this report;
- b) Note that the Angus Council AEF allocation for 2004/05 has been set at £155.218 million;
- c) Note the budget implications arising from a substantial proportion of the AEF increase consisting of resources over which the Council has little or no discretion regarding the use of;
- d) Note that the Scottish Executive have confirmed the replacement of the existing Section 94 capital controls with the new Prudential Framework;
- e) Note that Special Service Committees to consider individual departmental revenue and capital budgets and departmental cuts proposals for 2004/05 are due to be held on 12 February 2004.

**2. INTRODUCTION**

Reports previously submitted to Committee with regard to the 2004/05 revenue and capital budgets were :

- Report 726/03 to the Resources and Central Services Committee of 19 June 2003 which outlined the approach to the preparation of the 2004/05 revenue budget;
- Report 727/03 to the Resources and Central Services Committee of 19 June 2003 which outlined the approach to the preparation of the 2003/2007 Financial Plan and 2004/05 capital budget.

The revenue and capital budget processes for 2004/05 have been progressed over the last few months. Budgets have been prepared with reference to the last official notification of revenue grant (Aggregate External Finance) and the illustrative national Section 94 Consent provided to the Council by the Scottish Executive in Finance Circular 1/2003. Report 726/03 noted that the Scottish Executive intended to provide local authorities with updated financial information for 2004/05 in December 2003. Finance Circular 6/2003 was issued by the Executive on 17 December 2003 providing this information.

This Report sets out the main points to note from the information contained in Scottish Executive Finance Circular 6/2003, and outlines the implications for Angus Council. This report also provides a 2004/05 revenue and capital budget preparation update.

## SCOTTISH EXECUTIVE ANNOUNCEMENTS – REVENUE EXPENDITURE

### 3. AGGREGATE EXTERNAL FINANCE

#### Hypothecation and New Burdens

The Angus Council revised Aggregate External Finance (AEF) allocation for 2004/05, as detailed in the Scottish Executive's Finance Circular 6/2003, has been set at £155.218 million, an increase of £7.780 million (5.3%) on the 2003/04 allocation. However, within this increase there are specific allowances by the Scottish Executive for :-

- hypothecated (ring-fenced) sums in respect of specific government initiatives e.g. National Priorities Action Fund;
- new burdens which the Council will have to accommodate within its revenue budget e.g. the continuing financial implications of the McCrone recommendations, transfer of funding for Teacher's pension contributions and resource increases for other national and local priority services such as Police and Fire.

[Appendix A](#) provides a departmental analysis of the new burdens etc. which are supported by the £7.780 million AEF increase. It may be noted that this overall grant increase is net of the removal of £1.570 million of grant support in respect of Housing / Council Tax Benefit Residual Subsidy which from 2004/05 will be funded directly by the Department of Work and Pensions. Excluding the impact of this transfer, Angus Council has had a gross grant increase of £9.350 million.

Appendix A also categorises the new burdens etc. into :-

- resources over which the Council has little or no discretion regarding the use of e.g. these resources are provided in support of particular Scottish Executive initiatives, will be the subject of Local Outcome Agreements with the Executive or are new burdens which will result in the Council incurring additional expenditure.
- resources over which the Council has full discretion regarding the use of.

This information is summarised in the table below.

	<u>Aggregate External Finance (AEF)</u>		
	<u>2004/05</u>		
	<u>£m</u>	<u>Increase</u> <u>£m</u>	
2004/05 Headline Figure	155.218		
Add : Housing / Council Tax Benefit Residual Subsidy Transfer	1.570		
2004/05 Gross Headline Figure	156.788	9.350	6.3%
<u>Less</u> : Resources over which the Council has little or no discretion	(6.769)		
2004/05 Adjusted Headline Figure	150.019	2.581	1.8%
2003/04 AEF	147.438		

It may be noted from the table above that of the gross AEF increase of £9.350 million only £2.581 million (which is equivalent to only 28% of the gross sum) is available for use fully at the discretion of the Council. This sum is all that is available to finance the allowable growth within departmental base budgets such as pay inflation and increments, inflationary pressures and unavoidable new burdens not funded by the Executive. These cost pressures will undoubtedly exceed the £2.581 million available thus making budget cuts and an increase in the Council Tax inevitable in order to bridge the funding gap.

In a wider budget context it should be borne in mind that the AEF figures referred to above include specific grant for some services, the most significant of which is Police specific grant which covers 51% of eligible expenditure. Accordingly, any budget cuts in services which are covered by specific grant would result in Angus receiving a lower AEF total than that identified by the Scottish Executive.

#### McCrone Committee Recommendations

The Scottish Executive's Finance Settlement for 2004/05 includes a further increase in the funding provision to meet the additional costs of the ongoing implementation of the recommendations of the McCrone Committee on teacher's pay and conditions. It should be noted, however, that the Executive's claim to be providing full funding is based on their estimated costs and some of these have been challenged by CoSLA. Whilst the Executive's cost estimates for McCrone may be reasonable in national terms it is local authorities who will carry the budget risk if costs turn out to be greater than the funding provided in a local context. Such a scenario would create a budget problem for the Council as a whole and the Education department in particular.

#### Teacher's Pensions

The Scottish Executive's Finance Settlement for 2004/05 includes provision for the transfer of funding for an element of employer's contributions which have historically been paid directly by HM Treasury to the Scottish Public Pensions Agency (SPPA). Local authorities will now have responsibility for making full payment of employer's contributions to the SPPA. It is understood that the Treasury has given a commitment that the transferred element of employer's contributions will continue to be fully funded. This issue will require to be kept under review, in conjunction with CoSLA, to ensure that issues such as the impact of the McCrone agreement etc. are reflected in the resource transfer into the future.

#### Supporting People

There is currently a degree of uncertainty over the funding position for the Supporting People initiative for 2004/05. The level of grant support from the Scottish Executive for next year has yet to be announced as well as whether this support will cover all that funding previously provided through Transitional Housing Benefit. Additionally, there is a degree of risk over the income to be forthcoming from charges from clients. This initiative may present a problem for the Council as a whole and the Social Work department in particular. Further work on this matter is ongoing to inform the Special Service Committee meeting on 12 February 2004.

#### Housing / Council Tax Benefit Residual Subsidy

It was noted above that the Council has lost £1.570 million of grant in respect of Housing Benefit / Council Tax Benefit Residual Subsidy for 2004/05. In this instance Angus Council's grant funding has historically been in excess of the actual costs incurred locally. This has been identified as a budget issue for the Council as the replacement funding (direct grant from the Department of Work and Pensions) will reflect only those actual costs incurred.

The loss of £1.570 million of grant support from the Scottish Executive will, therefore, be compensated by increased grant income from the DWP. It is, however, unclear at present how much grant will be received by the Council in 2004/05 with the introduction of a transitional scheme and the relationship with the supporting people initiative (noted above) further complicating this issue. It is estimated that the adverse impact on the 2004/05 revenue budget will be in the order of £0.3 - £0.6 million of lost income. Further work on this matter is ongoing to inform the Special Service Committee meeting on 12 February 2004.

#### Tayside Police Joint Board

The Scottish Executive are amending the funding mechanism for Common Police Services. It is anticipated that the overall impact onto the Council's 2004/05 revenue budget from this will be, at the worst, a marginal loss of grant income. However, this cannot be confirmed until the Scottish Executive provides notification of the impact of this change onto the Council's grant for 2004/05. It is hoped that this issue will be clarified to inform the Special Service Committee meeting on 12 February 2004.

## **4. IMPLICATIONS OF ANNOUNCEMENTS FOR ANGUS COUNCIL**

### General

The Scottish Executive's Finance Circular 1/2003 was utilised to prepare the Council's budget projections for 2004/05. Finance Circular 6/2003 provided an update of the grant total for 2004/05 from that contained in Finance Circular 1/2003 and merely represents an amalgamation of outstanding grant adjustments of which the Council was aware. There are no major issues or surprises arising from the new Finance Circular.

Departmental Budgets

Departmental provisional base budgets for 2004/05 have been amended to account for those resources being provided by the Scottish Executive on a ring-fenced basis as well as those being made available in respect of new initiatives through the Finance Settlement.

Budget Cuts

It was noted above that the increase in government grant support (AEF) provided by the Scottish Executive is significantly curtailed when account is taken of hypothecation and new burdens. This adjusted AEF increase of £2.581 million is insufficient to meet those budget pressures identified for 2004/05. It has been necessary, therefore, to undertake a revenue budget cuts exercise in order to provide the Council with options for consideration to permit a balanced budget to be set. Departmental cuts proposals have been sought from service Directors for consideration at the Special Service Committee on 12 February 2004.

**5. 2004/05 REVENUE BUDGET PREPARATION UPDATE**Budget Guidance

Reference is made to Report 726/03 to the Resources and Central Services Committee of 19 June 2003 wherein the procedures to be followed in the preparation of the 2004/05 revenue budget were outlined. The report described the general process of the revenue budget preparation and set out a budget timetable based on setting the Council Tax in the week commencing 9 February 2004.

Provisional Base Budget Submissions

All General Fund departments have now submitted their provisional base budgets for the 2004/05 financial year and each of these has been subject to technical validation to ensure they are in accordance with the detailed guidance issued by the Director of Finance. Reports outlining the provisional base budgets for each department were submitted to the November / December 2003 cycle of committees for their respective interest.

Budget Strategy Group Meetings 18 September 2003, 11 November 2003 and 8 January 2004

The above noted Budget Strategy Group (BSG) meetings – a Member / officer group chaired by the Leader of the Council - considered a number of matters impacting on the 2004/05 revenue budget in order to determine a focused budget strategy for the Council. The initial meeting on 18 September 2003 considered the overall context in which the Council's budgets for 2004/05 would require to be set.

A further meeting of the BSG was held on 11 November 2003 to begin fleshing out a budget strategy for the Council in light of departmental provisional base budget submissions. The BSG's main focus was on the following issues:-

- Policy priorities for budget strategy purposes;
- Overall resource constraints;
- Special Fund issues;
- Departmental cuts proposals;
- New Burdens and Budget Issues.

**Policy Priorities**

In an environment of financial constraint and finite resources the budget process necessitates difficult choices being made on competing priorities. With this in mind the BSG considered it essential that some broad policy priorities be set to guide the development of the Council's budget strategy.

The proposed budget priorities, in no particular order, are therefore as follows :-

- to limit the extent of budget cuts made in departmental budgets;
- to ensure unavoidable / contractual budget issues are addressed within the budget;
- to endeavour to undertake additional contributions to the Council's Renewal & Repair Funds over and above the established baselines;
- to secure a general fund balance contingency at around 2% of the net budget.
- to provide, where possible, funds for discretionary departmental and corporate service developments / budget issues;
- to address the requirements of change management, customer care, community planning and caring for staff.

### **Overall Resource Constraints**

Members are aware that on both revenue and capital activities the Council is constrained in what can be achieved by the resources available. The Council's revenue budget is no longer controlled by an externally imposed spending limit. Spending levels are, however, still constrained by the amount of revenue resources which are available to the Council through grant funding from central government (Aggregate External Finance) and income raised locally through the Council Tax.

Development of the Council's budget strategy takes into account these resource constraints. This process will require difficult choices to be made regarding competing priorities and will inevitably mean some element of budget cuts being applied.

### **Special Fund Issues**

Members will be aware that the Council holds various Special Funds within its General Fund Account as part of its longer term financial management strategy. These Special Funds 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 view of the policy priorities described above the BSG will take cognisance of any possible need to further replenish the Council's Special Funds as the budget strategy is developed.

### **Departmental Cuts Proposals**

The BSG considered those initial cuts proposals prepared by departments which were, thereafter, discussed at the Budget Review Group and Member / Officer budget meetings. Finalised budget cuts proposals will be presented to the Special Service Committee meetings on 12 February 2004.

### **Service Developments, New Burdens and Budget Issues**

In submitting their budgets service directors are given an opportunity to identify particular budget issues or new burdens affecting their service and to identify areas for potential service developments. These issues reflect a mix of national factors which will affect all Council's and local matters specific to Angus Council's area. The BSG gave initial consideration to these issues which were, thereafter, discussed at the Budget Review Group and Member / Officer budget meetings.

### Budget Review Group Meetings

The Budget Review Group (BRG) meetings – an officer group chaired by the Chief Executive - took place on 10 and 17 December 2003. These meetings considered the provisional base budget submissions for 2004/05 made by departments (including budget issues and budget cuts proposals). The comments concerning departmental revenue budgets arising from the BRG meetings were subsequently considered at the Member / Officer meetings.

### Member / Officer Budget Meetings

Meetings took place on the 13 and 16 January 2004 with Budget Strategy Group members and departmental Conveners, Vice Conveners and Chief Officers to finalise departmental revenue budgets for 2004/05 prior to the setting of the Council Tax. Consideration was given, in particular, to departmental

budget cuts proposals and the Service Developments, New Burdens and Budget Issues identified by service directors.

## **6. 2004/05 REVENUE BUDGET PREPARATION NEXT STEPS**

### Cycle of Special Service Committee Meetings & Council Tax Setting Meeting

CoSLA have indicated a Uniform Council Tax setting day of 12 February 2004. The budget process is being progressed with this date in mind. It is proposed that, as was the case for the 2003/04 budget setting, a cycle of special committee meetings be held on that day prior to a special meeting of the Council to set the Council Tax. In this way all of the key budget decisions will be taken on the one day (12 February).

The above arrangements may require some changes to the normal Committee schedule (a meeting of Angus Council is already scheduled for 12 February 2004). The Committee is therefore asked to note that the necessary arrangements will be made to allow the Council to set the 2004/05 Council Tax on CoSLA's Uniform Budget Day of 12 February 2004.

## **SCOTTISH EXECUTIVE ANNOUNCEMENTS – CAPITAL EXPENDITURE**

### **7. SECTION 94 CONSENT / PRUDENTIAL CODE**

Finance Circular 6/2003 confirmed the Executive's intention to replace the existing Section 94 capital controls with the new Prudential Framework, a system of self regulation governed by the Prudential Code (as previously highlighted in report 727/03 to Resources & Central Services on 19 June 2003).

The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, as well as being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal. To demonstrate that local authorities have fulfilled these objectives, the Prudential Code requires the Council to set 17 indicators covering 5 distinct areas – affordability, capital expenditure, prudence, external debt and treasury management. Under the new regime, it is the area of affordability which will be the key driver of capital investment decisions as the Code places emphasis on the impact of capital investment on the overall revenue budget and the Council Tax in particular.

In previous capital budget cycles, the Section 94 Consent, capital grants, capital receipts and capital from current revenue all combined to provide a finite level of resources within which the Council's capital expenditure had to be contained. As a result of the implementation of the Code however, no further Section 94 Borrowing Consents will be issued by the Executive, although for loan charge support calculation purposes, the Executive have issued notional Consent figures for 2004/05 (£5.642m) and 2005/06 (£5.642m). The Council's Section 94 Consent for 2003/04 is £6.991m and it is clear that under normal circumstances (i.e. had the Consent regime continued), the Council would have faced some tough decisions to set a 2004/05 capital budget within the resources that would have been available.

With the implementation of the Prudential Code however, it is no longer necessary to determine a finite level of capital resources available. Rather the Council must now determine the capital financing costs which will be generated by the borrowing associated with the capital expenditure proposed and the affordability and sustainability of these costs and any other associated costs in terms of the Council's overall revenue budget. A report will be submitted to the special budget setting meetings on 12 February 2004 which will both consider the affordability and sustainability of the proposed capital budget and present for approval the indicators required to be set by the Code.

It should however be noted that the Scottish Executive have retained the ability to invoke statutory powers to limit local authority capital expenditure either in total or for specific Councils. The Executive indicated that they had not ruled out the possibility of applying borrowing limits as a method of controlling local authority capital expenditure under the Prudential Code, however it is worth noting that no reference was made in this regard in Finance Circular 6/2003. Whilst the possibility of limits being imposed in future years cannot be ruled out, it is becoming increasingly unlikely that they will be applied for 2004/05.

The only relevant capital information to report from this year's finance settlement circular therefore is the level of capital grants to be made available nationally to support expenditure on specific initiatives (i.e.

effectively reducing capital borrowing required and therefore the capital financing costs generated) and these are shown in the table below along with the Angus Council share of those grants as appropriate.

Capital Grants Announced By The Scottish Executive	Scottish Total		Angus Share	
	2004/05 £,000	2005/06 £,000	2004/05 £,000	2005/06 £,000
Police	31,400	31,400	0	0
Fire	23,600	23,600	0	0
Public Transport Fund (Incl. Cycling, Walking & Safer Streets)	60,000	60,000	722	1,027
Strathclyde PTA	11,000	11,000	0	0
Flood Prevention / Coastal Protection (note 1)	14,200	14,000	0	0
Air Quality Monitoring (note 2)	300	300	0	0
Land Decontamination	5,000	5,000	98	98
20 Mph zones	11,000	11,000	234	233
Tay Bridge	2,300	2,300	0	0
Private Sector Housing Grant (note 3)	60,000	60,000	522	520
Piers And Harbours	2,000	2,000	0	0
Cities Growth Fund	30,000	40,000	0	0
Schools Fund	76,700	76,700	1,647	1,647
<b>Totals</b>	<b>327,500</b>	<b>337,300</b>	<b>3,223</b>	<b>3,525</b>
<b>Notes</b>				
1. The flood prevention / coastal protection grant is distributed on a bid basis. The currently proposed Financial Plan includes a scheme for flood prevention works at River Street, Brechin for which it is intended to apply for some £1,703k of capital grant from this fund. This has not been included above as the potential success of the bid cannot be assessed at this time.				
2. The air quality monitoring grant is distributed on a bid basis. There are currently no bids planned by Angus Council.				
3. Private sector housing grant is distributed on a bid basis, usually in line with a Council's actual spend. The figures detailed above represent the estimated expenditure amounts included in the currently proposed Financial Plan and it is expected that the Council will be fully reimbursed from this fund.				

The current spending review concludes with financial year 2005/06 and as such no figures are yet available in relation to capital grants which the Council may be allocated for 2006/07.

The impact of the above grants will be taken into account when assessing the affordability and sustainability of the level of borrowing that will be required to fund the proposed capital programme.

In addition to the above capital grants, the Scottish Executive has approved an award from the Strategic Waste Fund in relation to a bid by the Council in respect of its integrated waste management system. Although this is a revenue grant award, it is possible that some of the work carried out under the project may be capital in nature and as such would be included within a future capital programme. It is expected however that revenue contributions from the grant award would be made available to fund any such expenditure.

## 8. 2003/2007 FINANCIAL PLAN PREPARATION UPDATE

Reference is made to report 727/03 to the Resources and Central Services Committee of 19 June 2003 wherein the procedures to be followed in the preparation of the 2003/2007 Financial Plan and 2004/05 capital budget were outlined.

The implementation of the Prudential Code has led to a closer link between the capital and revenue budget setting processes given the emphasis on consideration of the impact of capital investment on the overall revenue budget. As a result, report 727/03 described the general process of the capital budget preparation and set out a timetable coordinated with the revenue budget timetable.

Following this report, capital budget preparation guidance was issued in late August 2003. Thereafter capital budget strategy, issues and Financial Plan submissions were considered at the following meetings:

Capital Budget Sub Group	29 August 2003, 29 October 2003, 3 December 2003
Budget Strategy Group	18 September 2003, 10 November 2003, 8 January 2003
Budget Review Group	10 December 2003, 17 December 2003
Member / Officer Groups	13 January 2004, 16 January 2004

In addition to the above meetings, report 1410/03 was submitted to Resources and Central Services on 4 December 2003 seeking approval for a package of measures to address substantial slippage of £4.665m in the 2003/04 capital programme (identified in report 1404/03 to the same committee). These measures were approved and were reflected in the Financial Plans considered at the member / officer groups noted above.

Following significant changes as a result of the ongoing substantial slippage in 2003/04, the 2003/2007 Financial Plan is nearing completion. The most up to date projection in respect of the 2003/04 capital expenditure outturn and consequently the slippage value is the subject of a separate report to this committee. This position will be reflected in the provisional capital budget volume which will be presented for approval to the Special Service Committee meetings on 12 February 2004.

It should be noted that should the Executive decide to impose borrowing limits as described under section 7 above, it is possible that the capital programme as currently proposed may not be affordable and sustainable. In this situation, the content of the programme would require to be reviewed and in all likelihood reduced.

## 9. HUMAN RIGHTS

There are no human rights implications arising directly from this report.

## 10. CONSULTATION

The Chief Executive and Director of Law & Administration have been consulted on the terms of this report. In addition all Chief Officers have been consulted on their base budget submission for 2004/05 via the budget review process.

## 11. CONCLUSION

The Scottish Executive has increased Angus Council's grant support (AEF) by a gross sum of £9.350 million for 2004/05. After allowing for the mainstreaming of specific grant, new burdens and hypothecated (ring-fenced) resources a balance of £2.581 million is available to the Council to meet identified budget pressures. This sum is insufficient to meet identified budget pressures and has necessitated, therefore, the consideration of cuts proposals to provide the Council with options for consideration to permit a balanced revenue budget to be set.

In addition the Executive has confirmed the replacement of the existing Section 94 capital controls and that no further borrowing consents will be issued, although specific government initiatives previously supported by specific borrowing consents will now be supported by capital grants.

The next stage in the budget setting process will be the Special Services Committees and the setting of the Council Tax which are scheduled to take place on 12 February 2004.

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Director of Finance

**Background Papers** :- The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, were used in the preparation of this report :-

Finance Circular 6/2003 issued on 17 December 2003 by the Scottish Executive.