

ANGUS COUNCIL

Resources and Central Services – 17 June 2004

Angus Council Revenue Budget Projections for 2005/06 & 2006/07

Report By The Director of Finance

ABSTRACT

This report advises members of the outcome of the departmental budget projections exercise for 2005/06 and 2006/07. This exercise will also facilitate the inclusion of revenue budget information within the annual Service Plan updates.

1. RECOMMENDATIONS

- 1.1 It is recommended that the Council note the contents of this report and the associated projections volume (Annex A to this report), which is available in the members lounge.

2. BACKGROUND

- 2.1 Members will be aware that one of the key elements of Best Value implementation is for Councils to move to a longer-term outlook in terms of service planning and budgeting. The Council has embraced this longer-term approach for the last few years through the preparation of corporate and service plans and future years Revenue Budget Projections. The latest Projections Volume covers financial years 2005/06 and 2006/07.
- 2.2 The 2005/06 projections are based on the indicative Council Tax level for financial year 2005/06, as set at the Special Council meeting on 13th February 2003. In order to facilitate the inclusion of three-year budgetary information in each department's Service Plan, projections for financial year 2006/07 have also been prepared. However, in the absence of any grant information for 2006/07 from the Scottish Executive, these projections have been prepared on an individual departmental basis only, using the latest 2005/06 information as a basis. A more informed position for financial year 2006/07 will be known when the outcome of the Scottish Executive 2004 Spending Review is announced.
- 2.3 Detailed revenue budget projections for 2005/06 were outlined in Report 725/03 to this Committee on 19 June 2003. These revenue budget projections have been updated to reflect latest information together with projections for 2006/07 at a departmental summary level for inclusion in the updated Service Plans.

3. BUDGET PROJECTIONS 2005/06 and 2006/07

- 3.1 The following section details the assumptions made in preparing the revenue budget projections for 2005/06 and 2006/07.
- 3.2 **It should be noted that the departmental budgets detailed in the Revenue Budget Projections Volume are indicative only and do not reflect either a guaranteed maximum or minimum budget provision for either 2005/06 or 2006/07. Departmental revenue budgets will not be finalised until the conclusion of the budget process within each respective financial year.**

Revenue Budget Resources

- 3.3 The Scottish Executive's Spending Review 2002 provided a three year Finance Settlement for local authorities covering the period 2003/04 to 2005/06. A revised Finance Settlement was announced in December 2003 and these figures give a firm indication of the settlement for financial year 2005/06. This together with the estimated income from the indicative Council Tax level, has enabled the total projected revenue budget resources for 2005/06 to be determined with a fair degree of certainty.
- 3.4 Conversely, no firm grant information is currently available for 2006/07. This information will be available once the Government has concluded the Spending Review 2004 and the Finance Settlement for the period 2005/06 to 2007/08 is announced in December 2004. The revenue budget projections for 2006/07 have, therefore, been prepared at an individual departmental level assuming only those allowable increases impacting on departmental revenue budgets i.e. this excludes additional resources from the Scottish Executive for new initiatives they may wish to bring forward or corporate/departmental service developments, budget issues etc. which may be raised. Although this is likely to understate the revenue budget increases prevailing in 2006/07, the projected budgets still provide an indication of the financial resources likely to be available.
- 3.5 In preparing the projections, it has been assumed that any new government initiatives that may be introduced will be cost neutral to the Council. In the event that resources provided by the Scottish Executive are not sufficient to meet the costs locally in Angus, corrective action will be necessary to contain the higher costs within departmental resources and the overall Council budget.

Expenditure Assumptions

- 3.6 The main assumptions which were made in determining projected revenue budget expenditure for 2005/06 and 2006/07 are outlined below :
- Existing levels of Angus Council service delivery will continue i.e. service delivery methods and levels remain in line with those in 2004/05;
 - Pay awards have been assumed as:
 - 2.9% for teachers from 1 April 2005 and 2% from 1 April 2006 in accordance with the recently agreed settlement;
 - 3.0% for APT&C / manual from 1 April in each year;
 - 3.0% for Chief Officers from 1 April in each year.
 - Employer's superannuation contributions for Chief Officers, APT&C employees and manual workers have been increased from 265% to 275% of the employees' contribution rate in 2005/06 in accordance with those levels notified by the actuarial valuers. A further fund review will be carried out in the near future to inform contribution levels for 2006/07 onwards. In the absence of firm information, a further increase from 275% to 285% has been assumed for 2006/07. Those contributions in respect of teachers are set by the Scottish Public Pensions Agency. In the absence of any notification for 2005/06 onwards employers contributions have been assumed to increase from 7.65% to 7.9% in 2005/06 and a further increase from 7.9% to 8.15% in 2006/07 reflecting a generally upward trend in pension costs;
 - Salary increments for 2005/06 & 2006/07 are assumed to be in line with those for 2004/05 for teachers and APT&C employees;
 - National Insurance rates are assumed to remain unchanged. There has been no indication from Central Government in Budget announcements that these rates will be

altered. It should be noted that represents a budget risk for the Council, as any change in the rates applied could have significant budget implications for the Council (the 1% rate increase applied in financial year 2003/04 added circa £340k to the Council's employee costs budget);

- Education and Social Work will receive the full year-on-year estimated increase in Estimated Service Expenditure (ESE) (formerly known as Grant Aided Expenditure) as an addition to their budgets in 2005/06. ESE information for 2006/07 will not be available until the finance settlement announcement in December;
- Joint Boards will receive the full year-on-year estimated increase in Estimated Service Expenditure as an addition to their budget in 2005/06;
- A budget cuts package totalling £1.850 million will be required in 2005/06 and 2006/07. This will require to be achieved through a combination of departmental budget cuts and savings arising as a result of service reviews, policy amendments, quick wins and limitation of budget growth, which is shown below for indicative purposes;

	<u>2005/06</u> <u>£'000</u>	<u>2006/07</u> <u>£'000</u>
Service Reviews / Policy Amendments / Quick Wins / Limitation of Budget Growth	600	950
Departmental Cuts	1,250	900
TOTAL	1,850	1,850

- The 2006/07 revenue budget projections reflect the funding strategy for the A92 PFI project agreed by the Strategic Policy Committee at its meeting on 28 October 2003 (report 1237/03 refers);
- Limited provisions for general inflation and other, as yet unidentified, allowable budget additions have been made as well as a further allowance in respect of the estimated costs of Job Evaluation;
- A provision for continuing increased insurance costs has been made;
- It has generally been assumed that the initiatives currently being introduced by the government will be cost neutral to the Council;
- The Finance Department is currently reviewing the potential impact of the Prudential Framework. For the moment it has been assumed that any cost implications will be absorbed within the additional headroom provided by the Scottish Executive in the form of additional Loan Charges Support Grant.
- The Council's energy contracts are due to be re-negotiated for financial year 2005/06. The outcome of these negotiations will not be known for sometime, however, it has been assumed that energy costs will increase by 10%. This does not allow for any increase in the Climate Change Levy, which may increase to help fund the Government's programme of renewable energy. This area represents a budget risk for the Council at this time, however, the position will be clarified during the 2005/06 budget preparation exercise.

Waste Disposal Costs

- It is assumed that the level of private and domestic refuse will remain unchanged from that budgeted for in 2004/05;
- The Landfill Tax escalator will increase by £3 per tonne in each year in accordance with the announcements in the Chancellor's Budget Speech, albeit this will need to be confirmed in forthcoming budget announcements. It should be noted that these tax

increases were known about and taken into account in determining the 2005/06 indicative Council Tax increase of £52;

- The amount of waste Angus Council divert to the DERL incinerator will increase from 16,000 tonnes to 21,000 tonnes for 2005/06 and 2006/07;
- The gate fee payable by the Council for waste incinerated at the DERL plant will increase by £3 plus inflation from 1 April 2005 and £2 plus inflation from 1 April 2006, as outlined in report 412/04 approved by Angus Council at its meeting on 25 March 2004.

4. SUMMARY OF THE PROJECTIONS

- 4.1 The Revenue Budget Projections Volume provides an overall summary of the Council's projected aggregate budget for 2005/06, as well as the indicative Council Tax level previously announced by the Council. As outlined above, it has not been possible to prepare an overall Council budget for 2006/07 due to the lack of firm grant information.
- 4.2 In addition, the volume contains budget information for each Council department for 2005/06 and 2006/07 and the estimated level of budget cuts that may be required in each year. The key figures of note are summarised in the table below: -

	Financial Year	
	<u>Projected</u> <u>2005/06</u>	<u>Projected</u> <u>2006/07</u>
Indicative Council Tax Increase - £	£52	n/a *
- %	5.3%	n/a *
Indicative Council Tax	£1,037	n/a *
Amount Available For Contribution to Balances / Essential Infrastructure Funds	£2.700m	n/a *
Estimated Departmental Budget Cuts Required	£1.250m	£0.900m
Estimated Savings Required from Service Reviews / Policy Amendments / Quick wins / Limitation of Budget Growth	£0.600m	£0.950m

* - it has not been possible to determine these figures due to a lack of firm grant information.

5. IMPLICATIONS FOR THE COUNCIL

- 5.1 The indicative increase in Council Tax for 2005/06 and the continuation of budget cuts in each year point to difficult decisions when it comes to setting the actual Council Tax for each of these years. In addition to the assumptions outlined above, there are a number of other factors which are likely to further impact on the Council's budget setting decisions in the forthcoming years: -

- The Gershon Review is currently ongoing, but it is expected to report that substantial central government resources could be released through greater use of e-services and

processes, e-filing and the merger of administrative functions. For instance, the Finance Minister is on record as stating that it cannot be justified for there to be 32 local authority payrolls and it may be that the Scottish Executive takes action e.g. top-slicing of budgets, to address this;

- The Chancellor announced in the 2004 Budget Speech that he aimed to achieve efficiency savings across the public sector of 2.5% per year up to and including 2007/08. It would appear likely that this principle will be rolled out to local government also in one form or another.

5.2 The above indicates that the budget setting process for 2005/06 and beyond is likely to present the Council with yet more difficult decisions in order to achieve a balanced budget.

6. CONSULTATION

6.1 The Chief Executive and Director of Law & Administration have been consulted in the preparation of this report. In addition each Chief Officer has been involved in the preparation of the budget projections for their respective departments

7. CONCLUSION

7.1 Although the overall results of the budget projections can be viewed only as indicative at present, they do highlight the likelihood that an excess of departmental budget requirements over available revenue budget resources will continue to require the Council to implement budget cuts.

7.2 The Revenue Budget Projections Volume facilitates the inclusion of three year revenue budget information in updated departmental Service Plans.

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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 10/2002, "Local Government Finance Settlements : 2003/04, 2004/05 and 2005/06", issued on 4 December 2002 by the Scottish Executive;
- ◆ Finance Circular 1/2003, "Revised Local Government Finance Settlements: 2003/04, 2004/05 and 2005/06" issued on 14 February 2003 by the Scottish Executive.
- ◆ Finance Circular 6/2003, "Local Government Finance Settlements: 2004-05 & 2005-06" issued on 17 December 2003 by the Scottish Executive.
- ◆ Finance Circular 2/2004, "Revised Local Government Finance Settlements: 2004-05 & 2005/06 and Redetermination of Revenue Support Grant for 2002-03 & 2003-04" issued on 23 February 2004 by the Scottish Executive.
- ◆ "Removal of Residential Allowance & Part III Accommodation Rate of Income Support : Local Authority Allocations for 2004-05 & 2005-06 Transfer" – letter issued on 17 March 2004 by the Scottish Executive.
- ◆ "Allocation of Youth Justice/ASB Resources 2004-05 & 2005-06" issued on 19 March 2004 by the Scottish Executive.