

ANGUS COUNCIL

RESOURCES AND CENTRAL SERVICES COMMITTEE

3 FEBRUARY 2005

**SUBJECT: 2005/06 GENERAL FUND REVENUE AND CAPITAL BUDGETS :
IMPLICATIONS OF GOVERNMENT GRANT ANNOUNCEMENT AND BUDGET
PREPARATION PROGRESS UPDATE**

REPORT BY DIRECTOR OF FINANCE

Abstract: The purpose of this report is to advise Members of the implications for Angus Council arising from the 2005/06 Local Government Finance Settlement. The report also provides an update on the progress being made in preparing the 2005/06 revenue and capital budgets.

1 RECOMMENDATION

1.1 It is recommended that the Committee –

- i. note the contents of this report;
- ii. note that the Angus Council AEF allocation for 2005/06 has been set at £165.777 million;
- iii. 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;
- iv. note the capital grants that have been made available by the Scottish Executive over the period 2005/06 to 2007/08; and
- v. note that Special Service Committees to consider individual departmental revenue and capital budgets and departmental budget cuts proposals for 2005/06 are due to be held on 10 February 2005.

2 INTRODUCTION

2.1 The reports previously submitted to Committee with regard to the 2005/06 revenue and capital budgets were: -

- Report 776/04 to the Resources and Central Services Committee of 17 June 2004, which outlined the approach to the preparation of the 2005/06 revenue budget; and
- Report 775/04 to the Resources and Central Services Committee of 17 June 2004, which outlined the approach to the preparation of the 2004/2008 Financial Plan and 2005/06 capital budget.

2.2 The revenue and capital budget processes for 2005/06 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) provided to the Council by

the Scottish Executive in Finance Circular 2/2004. Report 776/04 noted that the Scottish Executive intended to provide local authorities with updated financial information for 2005/06 in December 2004 following the outcome of the Spending Review 2004. Finance Circular 8/2004 was issued by the Executive on 8 December 2004 providing this information.

- 2.3 This Report sets out the main points to note from the information contained in Scottish Executive Finance Circular 8/2004, and outlines the implications for Angus Council. This report also provides a 2005/06 revenue and capital budget preparation update.
- 2.4 It should be noted that the Scottish Executive continues to provide significant resources to local authorities, including Angus, out with AEF. These funding allocations are, in the main, made during the financial year and the resources provided to the Council are, therefore, not yet known. It is anticipated that any budget adjustments required to account for these additional funds will be cost neutral to the Council.

SCOTTISH EXECUTIVE ANNOUNCEMENTS – REVENUE EXPENDITURE

3 AGGREGATE EXTERNAL FINANCE

3.1 Hypothecation and New Burdens

3.1.1 Angus Council's revised Aggregate External Finance (AEF) allocation for 2005/06, as detailed in the Scottish Executive's Finance Circular 8/2004, has been set at £165.777 million, an increase of £9.708 million (6.2%) on the 2004/05 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 and resource increases for other national and local priority services such as Police and Fire.

3.1.2 [Appendix A](#) provides a departmental analysis of the new burdens etc. that are supported by the £9.708 million AEF increase. 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 that will result in the Council incurring additional expenditure;
- Resources over which the Council has full discretion regarding the use of.

3.1.3 This information is summarised in the table below.

	Aggregate External Finance (AEF)		
	2005/06 Increase		
	£m	£m	
2005/06 Headline Figure	165.777	9.708	6.2%
<u>Less</u> : Resources over which the Council has little or no discretion	(6.564)		
2005/06 Adjusted Headline Figure	159.213	3.144	2.0%
2004/05 AEF	156.069		

3.1.4 It may be noted from the table above that of the gross AEF increase of £9.708 million only £3.144 million (which is equivalent to only 32% 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 £3.144 million available thus making budget cuts, Best Value Service Review efficiencies and an increase in the Council Tax inevitable in order to bridge the funding gap.

3.1.5 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 that are covered by specific grant would result in Angus receiving a lower AEF total than that identified by the Scottish Executive.

3.2 McCrone Committee Recommendations

The Scottish Executive's Finance Settlement for 2005/06 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.

3.3 Public / Private Partnership Funding

The Finance Settlement includes additional grant funding provision of £1.7 million in 2005/06 in respect of the Council's A92 Public / Private Partnership project which is due for completion during the forthcoming financial year. This grant funding rises to £3.4 million in subsequent years and represents only partial funding of the annual unitary charge arising from the project, with the balance requiring to be met through the Council's revenue budget.

4 IMPLICATIONS OF ANNOUNCEMENTS FOR ANGUS COUNCIL

4.1 General

4.1.1 The Scottish Executive's Finance Circular 2/2004 was utilised to prepare the Council's budget projections for 2005/06, which allowed for a balanced revenue budget in accordance with the previously announced indicative Council Tax increase of £52.

4.1.2 Finance Circular 8/2004 provided an increase in the grant total for 2005/06 from that contained in Finance Circular 2/2004 as follows: -

Initiative	Department	£ 000
National Priorities Action Fund	Education	513
Waste Disposal / Landfill Tax	Environmental & CP	46
Supporting Young People Leaving Care	Social Work	77
Money Advice	Social Work	40
Supporting People	Social Work	76
Level Playing Field Support – A92	N/a	1,122
Police	N/a	251
Fire	N/a	191
Total increase in Grant		2,316
Youth Justice / ASBO Funding *	Social Work	(172)
Net Increase in Grant		2,144

* in preparing the indicative 2005/06 revenue budget it had been assumed that this funding would be forthcoming through Finance Circular 8/2004. This grant is now to be paid in a March 2005 redetermination of grant.

4.1.3 In light of the additional grant made available being ring-fenced for particular initiatives, the impact of Finance Circular 8/2004 on the 2005/06 revenue budget is neutral.

4.2 Departmental Budgets

Departmental provisional base budgets for 2005/06 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.

4.3 Budget Cuts / Best Value Service Review Efficiencies

4.3.1 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 £3.144 million is insufficient to meet those budget pressures identified for 2005/06. 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;
- Undertake a number of Best Value Service Reviews in order to identify efficiency savings within the revenue budget to mitigate the level of cuts required.

4.3.2 Budget cuts and Best Value Service Review efficiency proposals will be considered at the Special Service Committee meetings of the Council on 10 February 2005.

5 2005/06 REVENUE BUDGET PREPARATION UPDATE

5.1 Budget Guidance

Reference is made to Report 776/04 to the Resources and Central Services Committee of 17 June 2004 wherein the procedures to be followed in the preparation of the 2005/06 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 7 February 2005.

5.2 Provisional Base Budget Submissions

All General Fund departments have now submitted their provisional base budgets for the 2005/06 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 2004 cycle of committees for their respective interest.

5.3 Budget Strategy Group Meetings 6 May 2004, 25 May 2004, 17 June 2004, 11 November 2004 and 11 January 2005

5.3.1 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 2005/06 revenue budget in order to determine a focused budget strategy for the Council. The initial meeting on 6 May 2004 considered the overall context in which the Council's budgets for 2005/06 would require to be set.

5.3.2 Subsequent meetings of the BSG developed the budget strategy for the Council in light of consideration of the following issues:-

- Policy priorities for budget strategy purposes;
- Overall resource constraints;
- Special Fund issues;
- Departmental cuts proposals;
- Best Value Service Review conclusions and recommendations;
- New Burdens and Budget Issues.

5.3.3 *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 1.4% 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.

5.3.4 *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 that 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.

5.3.5 *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.

5.3.6 *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 10 February 2005.

5.3.6 *Best Value Service Reviews*

A number of Best Value Service Reviews have been progressed parallel to the budget preparation process. These have been undertaken in order to identify efficiency savings and mitigate the level of budgets cuts that require to be sought from departmental budgets. The conclusions and recommendations arising from the Best Value Service Reviews will be presented to the Special Service Committee meetings on 10 February 2005.

5.3.7 *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 that 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.

5.4 Budget Review Group Meetings

The Budget Review Group (BRG) meetings – an officer group chaired by the Chief Executive - took place on 7 and 15 December 2004. These meetings considered the provisional base budget submissions for 2005/06 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.

5.5 Member / Officer Budget Meetings

Meetings took place on the 17 and 19 January 2005 with Budget Strategy Group members and departmental Conveners, Vice Conveners and Chief Officers to finalise departmental revenue budgets for 2005/06 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 2005/06 REVENUE BUDGET PREPARATION NEXT STEPS

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

CoSLA have indicated a Uniform Council Tax setting day of 10 February 2005. The budget process is being progressed with this date in mind. It is proposed that, as was the case for the 2004/05 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 (10 February). This meeting will also establish indicative Council Tax increases for 2006/07 and 2007/08.

SCOTTISH EXECUTIVE ANNOUNCEMENTS – CAPITAL EXPENDITURE

7 THE PRUDENTIAL CODE

- 7.1 The 2005/06 capital budget is the second budget to be prepared by Angus Council under the self regulating Prudential Code regime.
- 7.2 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. Members will be aware that under the Prudential Code the level of capital expenditure is no longer the key influence within the setting of the financial 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. It is within this context that the 2004/2008 Financial Plan has been prepared.
- 7.3 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. A report setting out the various prudential indicators relating to the 2004/2008 Financial Plan will be presented at the Special Budget Meeting of Angus Council on 10 February 2005.

8 CAPITAL RESOURCES

- 8.1 With the implementation of the Prudential Code 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.
- 8.2 The principal means of funding capital expenditure come from the following sources:
- borrowing
 - Scottish Executive capital grants
 - contributions from other external sources
 - capital financed from current revenue (CFCR)
 - capital receipts from the sale of surplus assets.
- 8.3 The majority of the Council's capital expenditure is, and will continue to be, funded through borrowing. Whilst the Council is no longer constrained by an annual borrowing limit (as under the old Section 94 Consent regime), it is limited by the level of associated capital financing costs the revenue budget can support. Whilst an element of such borrowing is supported by the Scottish Executive through Loan Charges Support, anything over and above this requires to be found from within existing Council resources. Furthermore, it should also be noted that the government retains the power to impose capital borrowing limits both nationally and on individual local authorities if required.
- 8.4 The Scottish Executive's Spending Review 2004 has identified the sums available through capital grant at a national level for financial years 2006/07 and 2007/08

(Finance Circular 9/2004 refers). The table attached at [Appendix B](#) shows the capital grants for 2005/06 to 2007/08 (along with 2004/05 for comparative purposes) on both a national and local basis (where available). It will be noted that in most cases, Angus Council's actual grant allocation for 2006/07 and 2007/08 has yet to be announced, and it may be a number of weeks before this is known.

- 8.5 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 as follows: -

	<u>2004/05</u> £m	<u>2005/06</u> £m	<u>2006/07</u> £m	<u>2007/08</u> £m
<u>Strategic Waste Fund</u>				
National	90.030	111.530	120.133	132.633
Angus Council – Total Award *	1.706	2.753	1.277	1.209
Angus Council – Contribution towards capital works *	1.173	2.202	0.664	0.511

* Report 980/04 refers

- 8.6 Although this is a revenue grant award, a proportion of the work carried out is capital in nature and therefore reflected within the 2004/2008 Financial Plan. Revenue contributions from the grant award have been made available to fund such expenditure in the capital programme.

9 2004/2008 FINANCIAL PLAN PREPARATION UPDATE

- 9.1 Reference is made to Report 775/04 to the Resources and Central Services Committee of 17 June 2004 wherein the procedures to be followed in the preparation of the 2004/2008 Financial Plan and 2005/06 capital budget were outlined.

- 9.2 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 775/04 described the general process of the capital budget preparation and set out a timetable co-ordinated with the revenue budget timetable.

- 9.3 Following this report, capital budget preparation guidance was issued in August 2004. Thereafter capital budget strategy, issues relating to specific capital projects and financial plan submissions were considered at the following meetings:

Capital Budget Sub Group	11 August 2004, 26 October 2004, 20 December 2004
Budget Strategy Group	11 November 2004, 11 January 2005, 24 January 2005
Budget Review Group	7 December 2004, 15 December 2004
Member / Officer Groups	17 January 2005, 19 January 2005

- 9.4 Departmental capital programmes, as reflected in the 2004/2008 Financial Plan provisional budget volume, will be presented for approval to the Special Service Committee meetings on 10 February 2004, as will the prudential indicators report demonstrating the affordability and sustainability of the financial plan as a whole.

10 HUMAN RIGHTS IMPLICATIONS

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

11 CONSULTATION

11.1 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 2005/06 via the budget review process.

12 CONCLUSION

12.1 The Scottish Executive has increased Angus Council's grant support (AEF) by a gross sum of £9.708 million for 2005/06. After allowing for the mainstreaming of specific grant, new burdens and hypothecated (ring-fenced) resources a balance of £3.144 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.

12.2 The next stage in the budget setting process will be the Special Services Committees and the setting of the Council Tax that are scheduled to take place on 10 February 2005.

NOTE

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 8/2004 issued on 8 December 2004 by the Scottish Executive.

DSS/SJM
25/01/05

David S. Sawers
Director of Finance

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