

ANGUS COUNCIL

Special Budget Committee Meetings - 17 February 2000

Report 150/00

Provisional Revenue & Capital Budgets 2000/01 - Background Report

Report By The Director of Finance

ABSTRACT

The purpose of this report is to apprise Members of the Provisional Revenue Budget submissions of each Council Department and of the savings considered necessary to allow the Council to deliver a Budget within the Expenditure Guideline set by the Scottish Executive. The report also sets out the Provisional Capital Budget submissions for those departments with capital programme expenditure.

1 RECOMMENDATIONS

For those aspects of the budget for which the Committee is responsible, the Committee is asked to:

- a) Note the Provisional Revenue Budget submission(s) as contained in the 2000/01 Provisional Revenue Budget Volume (Report 151/00) as the base budget.
- b) Consider the savings proposals outlined in the separate 2000/01 Provisional Revenue Budget Savings Proposals Volume (Report 152/00) which have been prepared on a basis which will allow Angus Council to comply with the Expenditure Guideline set by the Scottish Executive.
- c) Agree to recommend appropriate budget savings to the Departmental Budget(s) and the revised budget net expenditure resulting therefrom to go forward to the Special Budget Meeting provisionally agreed for 9 March 2000 when the Final 2000/01 Revenue Budget for the Council will be determined and the Council Tax level set.
- d) Approve the Provisional Capital Budget submission(s) as contained in the 2000/01 Provisional Capital Budget Volume (Report 153/00)

GENERAL FUND REVENUE BUDGET 2000/01

2 INTRODUCTION – REVENUE BUDGET

Report No.135/00 to the Finance and Information Technology Committee on 1 February 2000 apprised Members of the position regarding Grant Aided Expenditure, Aggregate External Finance and Expenditure Guidelines in relation to the Angus Council 2000/01 General Fund Revenue Budget. The report highlighted that the Expenditure Guideline set by the Scottish Executive would require budget savings on the Provisional Revenue Budgets submitted of some £2.1m having to be made.

A full series of the appropriate Committees is being held on 17 February 2000 to consider each department's Provisional Revenue Budget 2000/01 and their respective savings proposals. Appendix 1 sets out a summary of the Council's overall revenue budget position for 2000/01 based on the Provisional Base Budgets and savings proposals.

3 FORMULATION OF BASE BUDGETS

Departmental base budgets have been prepared on an incremental basis using the 1999/00 budgets as a starting point and taking cognisance of significant factors adversely or favourably impacting on to budgetary requirements for 2000/01. All base budgets have been reviewed for accuracy and adequacy by the officer led Technical Validation (TVG) and Budget Review Groups (BRG).

Experience has shown that growth from one year's Revenue Budget to the next needs to be strictly controlled to avoid increases in departmental budget submissions significantly exceeding the increases allowed by the Scottish Executive in Expenditure Guidelines. Control of budget growth allows the level of budget savings required to be kept to more manageable levels. The base budget preparation guidance issued by the Director of Finance identified those items of budget growth deemed allowable which, in the main, related to contractual or unavoidable expenditure pressures.

Service Directors, in preparing their 2000/01 base budgets, identified areas where "non-allowable" budget growth was considered necessary. These areas were reviewed by the BRG and Service Directors were asked to identify how such non-allowable growth could be accommodated within existing resources, e.g. by making alternative savings elsewhere within their budget. For the purposes of preparing the 2000/01 budgets as set out in the Provisional Revenue Budget Volume, all non-allowable growth has been addressed mainly by making compensating budget adjustments and thereby effectively absorbing such cost pressures in the base budget. No details of such adjustments require to be shown in the Savings Proposals Volume (Report 152/00) because they have been contained within the base budget.

4 BUDGET SAVINGS STRATEGY

The Budget Review Group (chaired by the Chief Executive) met with Service Directors during December 1999 to review the departmental base budgets. These meetings identified a number of budget issues and also confirmed that departmental budget requirements, although based largely on a standstill position with regard to service delivery, would be above the Expenditure Guideline. Accordingly, ongoing detailed analysis and investigation of budgets by departmental and finance officers to identify areas for potential savings has been continued over recent weeks.

In formulating the budget strategy for 2000/01 cognisance was again taken of the need to protect front-line services. In addition it was considered appropriate to further protect the Education and Social Work budgets in recognition that these are priority areas for both the government and Angus Council. To this end no specific savings target was set for the Education budget and a 2% savings package was requested from the Social Work budget. All other departments have submitted savings proposals equivalent to 4% of their provisional revenue budget submission. It is highlighted however that both the Education and Social Work departments have been required to absorb a number of cost pressures within the increases in GAE allocations granted to these services by the Scottish Executive in order that such pressures did not add further to the savings required across the Council.

5 IDENTIFICATION OF DEPARTMENTAL BUDGET SAVINGS PROPOSALS

In the calculation of departmental savings targets, a clear set of principles were established in order that all savings targets were determined in a consistent and fair manner. The targets were calculated on the basis that all of the one-off savings accepted in setting the 1999/00 budget would require to be ongoing, and that only approved (allowable) items of growth within the budget could be accommodated in 2000/01.

Departments were requested, in conjunction with a designated Finance Department officer, to fully review all areas of their Provisional Revenue Budget Submission. It was stressed that the savings identified must be as practical as possible and that closure of facilities and proposals which would involve compulsory redundancy of employees were to be avoided wherever possible. In addition, it was emphasised that service delivery must remain a priority.

Both expenditure and income were examined with a view to identifying possible savings in a priority order of least unacceptable savings first. The savings required to be broken down into one-off savings which could not necessarily be repeated next financial year and ongoing savings which could be repeated in future financial years.

It is emphasised that the imposed financial climate within which the Council must deliver its Revenue Budget was taken fully into account and accordingly a corporate view of the Council's financial position was applied when savings were identified. Detailed examination of the savings proposals has been carried out and while the potential impact of some of them must cause concern, it is again stressed that such savings options are an inevitable consequence of the tight financial settlement within which the Council must operate. It should be noted that all of the savings offered up by departments will be required if Angus Council is to deliver a 2000/01 Revenue Budget within the Guideline limits set by the Scottish Executive.

6 OTHER ISSUES PERTINENT TO THE 2000/01 REVENUE BUDGET

The following issues are also relevant to the consideration of the 2000/01 Provisional Revenue Budget submissions and savings proposals.

Policy Led Budgeting

Members may recall reports 1121/98 to the Policy & Resources Committee of 27 October 1998 and 1097/99 to the meeting of Angus Council on 4 November 1999 which set out proposals for various policy led budgeting initiatives. Some of these initiatives were one-off in nature whilst others, such as Angus Ahead and Investors in People, were to have financial implications covering a longer period.

The financial effect of approved Policy Led Budgeting projects which will be ongoing in 2000/01 has been built into the departmental budgets shown in the Provisional Budget Volume (Report 151/00). Appendix 2 sets out the amounts included within relevant budgets in respect of Policy Led Budgeting.

Service Developments

Members are advised that the local government finance settlement includes increases in funding for both Education and Social Work and a number of other recognised new burdens. Much of the increased resources for Education and Social Work has been hypothecated (ringfenced) for specific initiatives.

Service development proposals on how the hypothecated resources for Education and Social Work and the provisions for new burdens are to be built into the 2000/01 revenue budget are attached for ease of reference at Appendix 3. These sums have been included in the budget figures shown in the Provisional Revenue Budget Volume. It is emphasised that the allocation of the costs associated with these service developments across the various budget heads within Education and Social Work may require some refinement in due course, but the total addition to the budget will remain at the level indicated.

Unavoidable / Contractual Budget Issues & New Burdens

Through the BRG process a number of expenditure pressures were identified by Service Directors as likely to impact on their budgetary requirements in 2000/01. These were discussed and reviewed in detail by the BRG with support from finance and service department officers. In light of the overall financial position in relation to the Council's Expenditure Guideline, the BRG took the view that only those items of a contractual or strictly unavoidable nature should be put forward for inclusion in the budget. The main issue in this context was in relation to the Council's waste disposal costs for 2000/01.

Members may recall that in setting the 1999/00 budget a provision was made for the part year costs of moving to the use of the DERL Waste to Energy Facility in Dundee for waste disposal purposes. The 2000/01 financial year will see, for the first time, a full years costs being incurred in respect of DERL and this requires a further addition to the budget. An addition to the budget of some £400k would have been required but for a successful appeal by Angus and Dundee City Councils to the Scottish Executive to have the basis of calculation of loan charge grant in respect of the project amended. This has the effect of netting down by £250k, to a cost of only £150k, the required addition to the budget in respect of DERL. This sum has been added to the budget of the Environmental & Consumer Protection department.

Whilst the cost to the Council of utilising the DERL facility is significant this must be measured against the escalating cost of landfill tax and the substantial savings in capital expenditure which will accrue from the Council having to make less use of expensive landfill sites.

A further £16k has been included in the Other Housing budget to cover the non-HRA element of costs associated with the introduction of Anti-Social Behaviour Orders legislation.

Common Good Fund Rents

Several departments of Angus Council utilise assets (mainly land and property) owned by the Common Good Funds and pay annual rental charges to the Common Good Funds accordingly. Previous practice has been to carry out a review of the rent levels charged every five years and this would mean that a review would be due to take effect from 1 April 2000. Due to ongoing work to re-value Common Good assets in accordance with capital accounting requirements it has not been possible to effect the rent review during the current financial year and accordingly it will be necessary to implement the rent review exercise during 2000/01 so that revised rent levels take effect from 1 April 2001.

6 OTHER ISSUES PERTINENT TO THE 2000/01 REVENUE BUDGET (continued)

Joint Board / Arrangement Budgets

The 2000/01 Revenue Budget for the Tayside Fire Joint Board was agreed at the Board Finance Sub-Committee meeting on 31 January 2000. Budget savings of some £173k were agreed in finalising the Fire Joint Board Budget of which the Angus share is some £33k.

The 2000/01 Revenue Budget for the Tayside Valuation Joint Board was agreed at the Board's General Purposes Sub-Committee meeting on 25 January 2000. Budget savings of some £31k were agreed in finalising the Valuation Joint Board Budget of which the Angus share is some £8k.

The Final 2000/01 Revenue Budget for the Tayside Police Joint Board will not be agreed until the Board meeting on 14 February 2000. However it is anticipated that the only change from the provisional budget already agreed by the Board's Finance Sub-Committee will be a reduction in the budget provision for loan charges of £141k of which Angus Council's share is £34k. In the unlikely event that the proposed budget adjustment for loan charges is rejected by the Joint Board it will be necessary to bring forward alternative savings proposals from the Angus Council budget to maintain an overall budget within the Guideline limit.

The 2000/01 Revenue Budget for the Tayside Contracts Joint Arrangement will not be considered until the Committee meeting on 14 February 2000. However from current information available from Tayside Contracts, the Angus share of the total estimated available surplus is £210k.

The appropriate allocations to Angus Council in respect of the Joint Boards and Joint Arrangement have been allowed for in the Budget Summary position shown in Appendix 1.

Surplus Local Tax Income

In line with the position in the last 3 financial years, the Scottish Executive is again prepared to allow Councils to use surplus local tax income to reduce the level of expenditure which will count for Guideline purposes.

Once a Council collects or is certain to collect any outstanding Community Charge/Council Tax income, it must firstly use this to reduce or eliminate any outstanding deficits on its revenue account which have not previously been written off. Thereafter the Council has the option of using this "additional" income to; a) build up its balances, b) reduce future years Council Tax levels or c) use the income for service expenditure.

Therefore if a Council collects or can reasonably expect to collect additional Community Charge/Council Tax income over and above what has already been collected and/or allowed for by way of bad debt provisions then the amount of "additional" income can be used as "miscellaneous income" to hold down the net expenditure figure for Guideline purposes.

In formulating the initial budget strategy and setting departmental savings targets a prudent allowance of £500k was made in respect of surplus local tax income. However having carefully analysed current collection levels and projected ahead on future collection levels it is thought possible that an equivalent figure to that allowed in the 1999/00 budget (£660k) could be realised again in 2000/01. The increase in this budget has been included as a corporate saving and members are advised that assuming such a high level of surplus local tax income carries a degree of risk.

Contributions to Special Funds

In line with previous years, consideration will need to be given to the level of possible contributions to the Council's various special funds. These funds permit the Council a degree of protection and flexibility, and form an integral part of the Council's overall financial management strategy. Proposed contributions will be considered at the Special Budget Meeting provisionally agreed for 9 March 2000 when the Final 2000/01 Revenue Budget for the Council will be determined and the Council Tax set.

7 FURTHER ANNOUNCEMENTS BY THE SCOTTISH EXECUTIVE

Since Report No. 135/00 (Finance & IT Committee 1 February 2000) was finalised a number of further announcements have been made by the Scottish Executive which have implications for the Council's overall revenue budget. These are outlined below:-

Top-Sliced Resources for Deprivation

Report 135/00 indicated that in addition to a sum of £6.5 million which was top-sliced from the main local government finance settlement and distributed to only 9 Councils, a further £15 million for similar purposes had been held back pending decisions by the Executive on how it should be distributed. Regrettably the Executive has chosen to distribute the further £15 million on largely the same basis as was used for the distribution of the £6.5 million, meaning that Angus Council along with the majority of local authorities will receive no additional allocation of resources. Had Angus Council received its average share (approximately 2%) of the total top sliced resources of £21.5 million an additional £368,000 (equivalent to £10 on the Band D Council Tax) in government grant support would have been available to help finance the cost pressures facing the Council.

Revision to School Meals GAE

A Scottish Executive error has been discovered in the original calculation of the GAE allocations for School Meals. The error has affected all Scottish Councils most of which have suffered a reduction in GAE. Although being informed of the error so late in the budget formulation process is far from satisfactory the adjustments required are technically sound and are required purely as a result of changes in GAE indicator data. The Angus Council GAE and AEF allocations have reduced by £133,000 and £117,000 respectively as a result of this error.

Revision of Loan & Leasing Charges Grant Support

A number of issues have arisen in the context of loan and leasing charges grant since the original figures were announced and it has been necessary, again on technical grounds, to adjust each Council's allocation. The Angus Council AEF allocation has reduced by £31,000 as a result of these changes.

The Executive had initially intended that the above changes on School Meals GAE and loan & leasing charges grant would result in alterations being made to each Council's Expenditure Guideline (a reduction of £160,000 in the case of Angus Council). Thankfully however the Executive has decided not to change the Expenditure Guidelines of those Councils which would have lost out as a result. Therefore although Angus Council's GAE and AEF has reduced because of the above changes the Council's Expenditure Guideline has remained unchanged.

The net result in value terms of all of the above changes is shown in the table below.

<u>ANGUS COUNCIL</u>	<u>Figures Per Finance Circular 9/1999 (15 December 1999)</u> £M	<u>Revised Figures Per Finance Circular 3/2000 (4 February 2000)</u> £M	<u>Change £M</u>
Grant Aided Expenditure (GAE)	124.762	124.629	-0.133
Aggregate External Finance (AEF)	110.675	110.527	-0.148
Expenditure Guideline	136.820	136.820	No change

8 IMPLICATIONS FOR 2000/01 REVENUE BUDGET OF FURTHER ANNOUNCEMENTS

Members will be aware that the main budget problem for Angus Council over the years has been the comparatively low Capping and Expenditure Guideline levels set. The fact that the Executive have chosen not to adjust the Council's Expenditure Guideline downwards in light of the above changes is therefore to be welcomed and means that the total of budget savings (including Joint Boards and Corporate savings) which require to be made remains at £2.1 million.

The ramifications of the reductions in GAE and AEF will therefore only affect the level of grant income received which in turn puts pressure on Council Tax levels. The reduction in AEF is equivalent to £4 on the Band D Council Tax.

9 CORPORATE SAVINGS

In order to mitigate the level of savings required of individual Council departments a number of corporate savings have been identified. These comprise adjustments to the level of assumed interest income on revenue balances held together with an increase in the level of Surplus Local Tax Income to be built into the budget. It is emphasised that each of these savings carry with them an element of risk and could be affected by circumstances not entirely within the control of the Council.

Following a thorough review it is also considered feasible to reduce the level of budgeted provision for the 2000/01 pay award whilst still maintaining sufficient allowance to meet a 2.5% award for all non-teaching staff and a 3% provision for teaching staff.

10 REVENUE BUDGET DOCUMENTATION

The revenue budget information required for the Special Service Committees on 17 February 2000 is contained in this report and the two undernoted reports :-

Report 151/00 - 2000/01 Provisional Revenue Budget Volume (Lilac Cover)

This Volume contains details of each department's budget submission for 2000/01, accompanied by a brief description of the proposed savings as they affect each service area and cost head. A commentary from each Head of Department is also given.

Report 152/00 - 2000/01 Departmental Savings Proposals Volume (Blue Cover)

This Volume provides more detail on each of the savings proposed by service departments. Each saving has been allocated a reference number, which identifies the department and the priority given to that saving by the Service Director (1 being the highest priority / most acceptable) e.g. SWRK - 1

The savings references in this Volume correspond to those contained in the Provisional Revenue Budget Volume. The relevant Provisional Revenue Budget Volume page number is shown against each of the savings in the Savings Proposals Volume to make cross-referencing between the two documents easier.

11 HEAD OF DEPARTMENT COMMENTS

Individual commentary submitted by each Head of Department on their 2000/01 Provisional Revenue Budget and Savings Proposals are contained in the 2000/01 Provisional Budget Volume. These provide additional contextual information on the issues affecting each department's revenue budget.

GENERAL FUND CAPITAL BUDGET 2000/01

12 INTRODUCTION - CAPITAL BUDGET

The Director of Finance wrote to all Chief Officers (excluding the Director of Housing) in September 1999 requesting:

- ◆ Financial Plan submissions of proposed capital expenditure for the period 2000/01 to 2002/03 in line with the departmental targets established by the Capital Budget Sub Group (CBSG) of the Budget Review Group (BRG);
- ◆ An update of departmental 1999/00 programmes.

As with the revenue budget, departmental Financial Plan submissions were reviewed by the Technical Validation Group to ensure that they were in accordance with the budget guidance issued by the Director of Finance.

The CBSG, chaired by the Chief Executive, considered the Financial Plan submissions from a corporate perspective, comparing the submissions with the estimated resources available to finance capital expenditure. The total of submissions were in excess of the estimated capital resources for 2000/01. The CBSG, therefore, made recommendations to the BRG meetings of downward revisions in departmental target levels in order to achieve a capital budget for 2000/01 in line with estimated resources.

The CBSG recommendations were approved at each BRG meeting. Chief Officers subsequently returned revised Financial Plan submissions for consideration at today's meetings within the Provisional Capital Budgets Volume (Report 153/00).

13 RESOURCE CONSTRAINTS

The Scottish Executive limits the level of capital expenditure which local authorities can incur through the Section 94 Consent allocation system. The Council's Section 94 Consent formula allocation has risen between 1999/00 and 2000/01 by £331k (7%) from £4,873k to £5,204k. The Council may supplement this sum with capital receipts or Capital Funded from Current Revenue. However, these funding options are limited also and thus necessitate, as with the revenue budget, choices being made regarding where the finite resources available in the capital budget will be used.

It should also be noted that a significant proportion of each year's capital budget is accounted for by legally committed projects rolling forward from previous years. This limits the amount of resources available for the undertaking of new capital projects.

14 SUMMARY OF CAPITAL BUDGET AND RESOURCES IN 2000/01

Appendix 4 (attached) provides a summary of the provisional departmental capital budgets for 2000/01 totalling £8,734k as contained in the Provisional Capital Budgets Volume (Report 153/00). The appendix also details the estimated capital resources anticipated to be available to fund this expenditure.

The provisional capital budget for 2000/01 of £8,734k compares with that for 1999/00 of £9,768k, a reduction of £1,034k. Although a number of factors account for this reduction, in broad terms, it is due to the final allocations of central government Challenge Fund support for the A92, Edzell Regeneration and Andover Primary School projects being made in 1999/00.

It should be emphasised that a further revision of both capital expenditure and funding may be necessary once the Council is notified by the Scottish Executive of the final Section 94 Consent formula allocation for 2000/01. Final allocations will be formally issued by the Scottish Executive after updated projections of capital receipts are provided by local authorities in mid-February. A further report will be brought to the Finance & Information Technology Committee in light of this notification. An updated review of 1999/2000 projected spend and carry forward implications to 2000/01 will also be carried out at that time.

15 CONSULTATION

The Chief Executive and Director of Law and Administration have been consulted in the preparation of this Report. In addition each Head of Department has been fully consulted in their respective areas of responsibility as contained in Reports 151/00, 152/00 and 153/00.

16 CONCLUSION

The proposed savings contained in the 2000/01 Revenue Budget Departmental Savings Proposals Volume attempt to limit the level of unpalatable savings proposals, and therefore represent the most acceptable budget savings options available and those which should have the least effect on service delivery.

The level of resources available for projects within the Capital Budget has also been severely restricted for next year resulting in a significant shortfall between the capital investment considered necessary within the Angus area and what can be afforded under government spending restrictions.

DAVID S SAWERS
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 9/1999 issued on 15 December 1999 by the Scottish Executive
Finance Circular 3/2000 issued on 4 February 2000 by the Scottish Executive

I Lorimer
Corporate Finance Division
27 March 2001
Prov Budget Background Rpt.doc

PROVISIONAL DEPARTMENTAL CAPITAL BUDGETS 2000/01

Department	<u>£000</u>
Education	2,645
Cultural Services	-
Economic Development	1,195
Environmental & Consumer Protection	900
Information Technology	-
Planning & Transport	620
Property Services	700
Recreation Services	69
Vehicle Hire Centre	-
Miscellaneous	7
Roads	2,350
Social Work	248
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Total	8,734
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ESTIMATED CAPITAL RESOURCES 2000/01

	<u>£000</u>
Section 94 Consent (provisional)	6,048
Estimated Capital Receipts	500
Carry Forward of S94 Consent/Capital Receipts	948
Capital Funded from Current Revenue	338
Slippage Allowance	900
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	8,734
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