

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 27 FEBRUARY 2025

**PROVISIONAL 3 YEAR REVENUE BUDGET POSITION FOR 2025/26 AND INDICATIVE
REVENUE BUDGETS FOR 2026/27 AND 2027/28**

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

1. ABSTRACT

- 1.1 The purpose of this report is to apprise members of the 3 year revenue budget position for the council starting with the 2025/26 provisional revenue budget position plus indicative revenue budgets for 2026/27 and 2027/28 for members to note.

2. ALIGNMENT TO THE COUNCIL PLAN AND COUNCIL POLICIES

- 2.1 This report contributes to the following strategic priorities in the Angus Council Plan, we want:
- Angus Council to be efficient and effective.

3. RECOMMENDATION(S)

- 3.1 It is recommended that the Council:
- notes the contents of this report and in particular the need to continue to plan and deliver sustainable savings over the medium to long term to meet the significant financial challenges which the Council faces in the next few years;
 - notes that the Council is expected to continue to face significant challenges to remain financially sustainable based on the analysis in this report and that this will have an unavoidable impact on Council Tax levels and services to the public;
 - note that the assumptions made for cost pressures and areas of budget risk for financial years 2026/27 and 2027/28 are based on the Council's Medium Term Budget Strategy approved in December 2024 (Report 387/24) adjusted for new budget risks;
 - note that the assumptions regarding budget savings and the use of Council reserves for financial years 2025/26, 2026/27 and 2027/28 are taken from the Council Delivery Plan 2025/26 (Report 49/25) and the General Fund Reserve Proposed Strategy (Report 62/25) respectively;
 - note that for the purposes of this report, Council Tax increases of 7.5% p.a. in each of the next 3 years have been assumed on an indicative basis to assist elected members in making decisions on the 2025/26 budget and Council Tax;
 - note that on the basis of the assumptions made the potential path to a balanced budget for the 3 year period (as set out on an indicative basis only in Table 4 of this report and Appendix A) shows a gap remaining of £5.829 million after increases in Council Tax, savings and the use of reserves on a substantial scale;
 - note that the 3 year position set out in this report will be subject to change depending on what elected members agree as their final proposals for the 2025/26 budget including Council Tax and Reserves decisions;
 - note the intention to provide this 3 year update annually to ensure the Council has a rolling 3 year revenue budget and Council Tax forecast.

4. BACKGROUND

- 4.1 This report sets out a 3 year revenue budget position for the Council on an indicative basis to help inform the budget decisions which need to be made in financial year 2025/26 which is year 1 of the new three year planning period. Due to the financial challenges and funding gaps facing the Council it is essential that the Council plan its budget strategy over a rolling 3 year period and make decisions to ensure savings and Council Tax increases are planned across that 3 year period. Ongoing pressures on costs due to inflation and, in some services higher demand, continue to create challenges for the Council's financial sustainability and this in turn will have consequences for the services the Council provides and the Council Taxes it has to levy.
- 4.2 In considering the 3 year revenue budget position members are asked to bear in mind that the report is for noting and shows a projected position over the next 3 financial years rather than a definitive position. The position shown in Appendix A will be subject to change depending on what elected members agree as their final proposals for the 2025/26 budget including Council Tax and Reserves decisions.
- 4.3 2025/26 Revenue Budget
The figures shown for financial year 2025/26 are based on the proposals considered by the Policy & Budget Strategy Group (PBSG) but in relation to contributions to or from the Council's Reserves final decisions have yet to be made by the Council.

For information (as a reminder) the approved 3 year budgeting report in February 2024 used a 10% increase in Council Tax for what was years 2 & 3 at that time, 2025/26 and 2026/27.

For the purposes of this report and **for illustrative purposes only** an indicative 7.5% increase in Council Tax has been applied in each of the next 3 financial years. It has been assumed that reserves will be used to help balance the budget in line with the recommended strategy set out in report 62/25. However the Council could apply a higher Council Tax increase above the level assumed and reduce the reliance on one-off reserves to achieve a balanced position.

- 4.4 2026/27 and 2027/28 Revenue Budgets
The figures shown for these financial years are an indication of the Council's potential budget position based on a number of assumptions including the implications of the 2025/26 assumed position. Council is not being asked to formally approve these but to note the position and what it means for the Council's budget over a 3 year period.
- 4.5 An update to the projected budget position for financial year 2026/27 and 2027/28 will be provided as part of the formal budget motion and amendments at the Council meeting on 27 February 2025 once proposals regarding the 2025/26 Council Tax and reserves position have been put forward.

5. CURRENT POSITION

- 5.1 Provisional 3 Year Revenue Budget Projections
The purpose of the projections in this report is to inform future service and budget planning and in particular to try to get an appreciation of the level of future funding gaps and the savings that may need to be made and what level of Council Tax increase and use of reserves may need to be contemplated.
- 5.2 The starting point for the 3 Year Revenue Budget is the 2025/26 Provisional Revenue Budget set out in report 60/25. This position has then been adjusted for areas of budget growth deemed unavoidable for each of the years and Change Programme Savings. The budget growth assumptions have been taken from the Medium Term Budget Strategy (MTBS) (report 387/24) approved by Angus Council in December 2024 but have been increased by £2 million in both 2026/27 and 2027/28 to take into account a revised risk profile in relation to those years. Since the MTBS was prepared new or increased risks have arisen for the Council in relation to employers national insurance funding and the inevitable impacts this will have on to the Council's supply chain; inflation now expected to remain higher for longer and risks around pay inflation in the context of these other inflationary pressures.

- 5.3 The projected 3 year revenue budget projected position is detailed in Appendix A to this report. This appendix sets out the movement to calculate the net expenditure position for each of the financial years.
- 5.4 The 2025/26 provisional budget has been adjusted for the following to calculate the Provisional Budget for 2026/27:
- Removal of the one off 2025/26 Budget Issues
 - Add in the budget growth for 2026/27 from the assumptions in the MTBS model
 - Add in additional corporate cost pressures for new and increased budget risks (£2m)
 - Deduct 2026/27 Change Programme Savings
- The Provisional 2026/27 Budget has then been adjusted for the following to calculate the Provisional Budget for 2027/28:
- Add in the budget growth for 2027/28 from the assumptions in the MTBS model
 - Add in additional corporate cost pressures for new and increased budget risks (£2m)
 - Deduct 2027/28 Change Programme Savings
- 5.5 Over the last few years the projected funding gap has been addressed primarily through the Change Programme. The latest Change Programme position is set out in the Council Delivery Plan 2025/26, Report 49/25 to this meeting. The savings in the Change Programme are a combination of Directorate savings and Corporate Savings. The savings that relate to Directorates have been reflected in the Services section in Appendix A and the savings categorised as corporate have been included in the Corporate Items section. The 3 year savings from the Change Programme totalling £7.153 million are reflected in the net expenditure position for each of the financial years in Appendix A.
- 5.6 Capital Financing Costs estimates for the 3 years have been taken from the latest Long Term Affordability Model, report 65/25 submitted to this meeting.
- 5.7 Government Grant projections for 2026/27 and 2027/28 have been assumed as the same as 2025/26 and then adjusted for by the MTBS assumed reductions. The projected Government Grant income has then been deducted from the Net Expenditure totals to calculate the Net Expenditure to be met from Council Tax.
- 5.8 The council tax base for the calculation of Council Tax income increases year on year as new homes are added to the Council Tax valuation roll. This results in annual increases in the yield from Council Tax even if the Council Tax rate stays the same. Council Tax levels for the previous year plus income from the projected increases in the Council Tax Base are included in the Council Tax line in Appendix A. This income has then been deducted from the Net Expenditure to calculate the Projected Funding Gap for each of the financial years.
- 5.9 Report 387/24 to Angus Council on the 19 December 2024 set out an updated Medium Term Budget Strategy (MTBS) for Angus Council's General Fund Services incorporating the projected funding shortfall over the period 2025/26 to 2027/28. Table 1 below details the estimated funding gaps for the 3 year period as they were at that time.

Table 1 - MTBS Report – Estimated Funding Gap – Baseline Position

	2025/26 £m	2026/27 £m	2027/28 £m	3 Year Total £m
Funding shortfall	9.506	7.239	7.293	24.038

- 5.10 This position has now been updated following the preparation of the 2025/26 budget and after the adjustments set out in section 5.4 have been made.
- 5.11 In order to make a like for like comparison of the updated funding gap position and the MTBS position the Change Programme savings need to be added back to the Net Expenditure totals. Table 2 below sets out the updated gross position based on the assumptions and risks that have been built into the 2025/26 budget and the indicative budgets for 2026/27 and 2027/28.

Table 2 – Updated 3 Year Funding Gap

	2025/26 £m	2026/27 £m	2027/28 £m	3 Year Total £m
Net Expenditure per Appendix A	369.351	366.255	369.374	1,104.980
Add back Change Programme Savings deducted from above	2.854	3.512	0.787	7.153
Adjusted Net Expenditure	372.205	369.768	370.161	1,112.134
Government Grant Income	(296.990)	(296.716)	(295.619)	(889.325)
Council Tax Income (based on 2024/25 Band D Council Tax of £1,316.68)	(63.494)	(63.946)	(64.046)	(191.486)
Projected Funding Gap before Savings, Council Tax Increase and Use of Reserves	11.721	9.106	10.496	31.323

From Table 2 it can be seen that the like for like funding gap compared to the MTBS has increased by £7.285 million to £31.323 million. This increase is due to the need to add in a provision for the cost of Employer National Insurance increases and the provision of Contingency for budget risks however these costs were partly offset by increased grant funding from the Scottish Government. The funding gap position for the 3 financial years after the removal of Change Programme Savings and review of charges additional income is summarised in Table 3 below.

Table 3 – Projected Funding Gap after Removal of Change Programme Savings

	2025/26 £m	2026/27 £m	2027/28 £m	3 Year Total £m
Funding Gap per Table 2	11.721	9.106	10.496	31.323
Change Programme Savings	(2.854)	(3.512)	(0.787)	(7.153)
Projected Remaining Funding Gap to be met from Council Tax Increases & Use of Reserves	8.867	5.594	9.709	24.170

- 5.12 From Table 3 it can be seen that a significant funding gap still remains across all 3 years. The options available to the Council to close these remaining gaps are increases in Council Tax, further reductions in expenditure and services or increases to charges (beyond those in the current Change Plan) and use of reserves. A better than projected position on government grant funding could also reduce the funding gaps shown but the Council has limited influence on those decisions by the Scottish Parliament.

6. PROPOSALS

6.1 Bridging the Projected Funding Gap

The Council is legally required to set a balanced budget each year and this means that projected gaps will need to be addressed as part of the budget setting process for each year.

- 6.2 Further measures available to address this funding gap are noted below and have been applied to the Net Expenditure Summary in Appendix A on an indicative basis to reduce the projected funding gap.

- Increases in Council Tax Income - the projected funding gaps could be met from Council Tax increases. As noted above the indicative figures for all 3 years assume a council tax increase of 7.5% each year. The impact of these indicative increases has been reflected in Appendix A but this is solely to provide an indication of what this would mean for the Council's budget and the reliance on reserves which would then arise. For the avoidance of doubt members are not being asked to agree the increase in Council Tax in any of the 3 years shown in this report.
- General Fund Reserve Drawdown Strategy –. As part of the 2025/26 budget setting the Council's existing reserve strategy has been reviewed and updated and the recommendations of this new 4 year reserve strategy are set out in Report 62/25. The values from this proposed strategy have been added to Appendix A. Decisions made by Council on 27 February 2025 in relation to Council Tax may affect the level of reserves which need to be used to achieve a balanced budget. It is preferable to limit the extent to

which reserves need to be used to achieve a balanced budget since such reserves are a one-off rather than ongoing source of funding and permanent solutions to the projected funding gaps will eventually need to be found.

- One-Off Budget Issues – Report 62/25 seeks approval for the funding of the One-Off Budget issues of £0.803 million from the Uncommitted General Fund Reserve and this has been included in Appendix A. This figure will however change based on the budget proposals being presented at Agenda Items 6 to 8.
- Further Use of the Uncommitted General Fund Reserve (If available) - another option to bridge the funding gap is further use of the Uncommitted General Fund Reserves if funds are available. Report 62/25 on this agenda sets out the projected uncommitted General Fund Balance at 31 March 2025 as £0.242 million so for the purpose of this report this option is limited to that sum in Appendix A for 2026/27 & 2027/28.

6.3 The use of reserves to balance the budget provides a one off solution for that year and where this happens this needs to be added to the following year as a budget issue as it was only a temporary solution to the underlying funding gap. This adjustment has been made in Appendix A for the relevant years to ensure the correct funding gap is being reported.

6.4 The funding options set out in paragraph 6.2 above have been deducted from the projected funding gaps set out in Table 3 and this has reduced the projected funding gap for each financial year as set out in Table 4 below.

Table 4 – Bridging the Funding Gap

	2025/26	2026/27	2027/28
	£m	£m	£m
Projected Funding gap after Change Programme Savings (Table 3)	8.867	5.594	9.709
<u>Path To Balancing the Budget</u>			
Indicative Increase in the Council Tax Base Income	(0.452)	(0.100)	(0.100)
Indicative Council Tax Increase (Council Tax @ 7.5 % for 25/26, 26/27 & 27/28 (net of CTR impact)	(4.762)	(4.638)	(4.986)
Reserves Drawdown Strategy – reports 65/24 & 62/25 - Ongoing	(2.850)	(2.000)	(1.500)
Use of General Fund Reserve – One Off Budget Issues – Report 62/25	(0.803)	(0.500)	(0.500)
Adjustment for Previous Years one-off Solutions	n/a	2.850	2.000
Projected Funding Gap / (Surplus) after options	0.000	1.206	4.623
Cumulative Funding Gap / (Surplus)	0.000	1.206	5.829

6.5 From Table 4 it can be seen that an indicative balanced budget has been set out for 2025/26, and a deficit position is projected for 2026/27 and 2027/28.

6.6 Table 4 also shows that over the 3 year period there is a cumulative budget gap of £5.829 million. While on the face of it that level of remaining gap might seem potentially manageable it is important to point out that this gap is after having applied the following significant measures over the 3 year period:

- An assumed 22.5% increase in income from Council Tax increases.
- Acceptance and achievement in practice of Change Programme savings targets of over £7m
- Use of Reserves of just over £6m

In other words even if the Council can achieve its £7million of savings targets, decides to increase Council Tax to a value of a 22.5% increase over the 3 years and uses just over £6 million of Reserves it will still have a funding gap of £5.8m to address which is equivalent to a further circa 9.5% increase in Council Tax if no other options can be found.

6.7 The projected 3 year budget set out in this report shows the scale of the challenge facing the Council. Savings on the scale estimated to be required cannot be achieved without real and

far-reaching changes and reductions to the number and level of services provided by the Council beyond those already implemented in previous years as well as Council Tax increases.

6.8 Future Budget Risk/Uncertainties

During the course of preparing the 3 Year Revenue Budget Strategy some areas of risk and/or strategic priority have been identified that will undoubtedly impact on the council in future years and which may need further investment. It should be noted that this report is based on assumptions and as highlighted in the MTBS and Background report there are a great many risks and uncertainties facing the Council in the next few years.

7. **FINANCIAL IMPLICATIONS**

7.1 There are no additional financial implications for the Council arising from the recommendations in this report.

8. **RISK MANAGEMENT**

8.1 The following risks from the Corporate Risk Register are relevant to this report:

- Financial Sustainability
- Transforming for the Future

9. **ENVIRONMENTAL IMPLICATIONS**

9.1 There are no environmental implications for the Council arising from the recommendations in this report.

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

10.1 An Equality Impact Assessment is not required as this report has no impact on people and it is reflective, setting out budget funding gap projections for future years for members to note.

11. **CHILDRENS RIGHTS AND WELLBEING IMPACT ASSESSMENT**

11.1 A Children's Rights and Wellbeing Impact Assessment has been undertaken and a full assessment is not required as the "General Principles" do not apply to this proposal.

12. **CONSULTATION**

12.1 The Chief Executive and Acting Director of Legal, Governance & Change have been consulted on this report.

NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to a material extent in preparing the above report are:

- Finance Circular 10/2024 issued by the Scottish Government

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List of Appendices:

Appendix A – 3 Year Net Expenditure Summary and Projected Funding Gap