

ANGUS COUNCIL

SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 21 FEBRUARY 2019

PROVISIONAL REVENUE & CAPITAL BUDGETS 2019/20 – BACKGROUND REPORT

REPORT BY THE HEAD OF FINANCE & LEGAL

ABSTRACT

The purpose of this report is to apprise Members of the provisional revenue budget submissions of each Council service and the budget savings considered necessary to allow the Council to deliver a sustainable revenue budget within the resources expected to be available. The report also sets out the provisional capital budget submissions for those services with capital expenditure.

1. RECOMMENDATIONS

1.1 It is recommended that the Council:-

- i) Note that the Angus Council Revenue Grant Support allocation for 2019/20 has been provisionally estimated at £213.372 million, as set out in Table 1 in section 3;
- ii) Note the provisional revenue budget submission(s) as contained in the 2019/20 Provisional Revenue Budget Volume (Report 58/19) and summarised in Appendix 1 as the base budget;
- iii) Note and approve the budget issues as detailed in the Provisional Revenue Budget Volume (Report 58/19) and shown in columns C & D of the Summary Statement of Net Expenditure at Appendix 1 that have been added to service budgets;
- iv) Note and approve the review of charges and other adjustments shown in columns E & F of the Summary Statement of Net Expenditure at Appendix 1 that have been added to service budgets;
- v) Approve the provisional capital budget submission(s) as contained in the 2019/20 Provisional Capital Budget Volume (Report 59/19);
- vi) Note the prospects for public spending in 2020/21 & beyond, including the areas of strategic priority / budget risk that may require future investment, as set out in section 9 of this report;
- vii) Note the high level projected funding gap and savings position for 2020/21 and 2021/22 as set out in Table 5 of the Report; and
- viii) Approve the suggested change to the current Long Term Empty Property policy in paragraph 7.8; and
- ix) Note the potential areas of investment, paragraph 7.10 and summarised in Appendix 3 decisions on which will require to be made at the Special Council meeting.

2. ALIGNMENT TO ANGUS COUNCIL PLAN / LOCAL OUTCOME IMPROVEMENT PLAN (LOIP)

2.1 The revenue and capital budget proposals set out in this report, including the budget issues recognised, and the budget savings targeted through the Change Programme which are being recommended for approval, have been framed in the context of the Council's corporate priorities as set out in the Council Plan and the Local Outcome Improvement Plan. The budget as proposed is considered to be in keeping with the current priorities and targets, albeit there may be an impact on the speed at which priorities and targets can be achieved. Proposed capital budgets also reflect the Council's corporate priorities.

3. BACKGROUND - GENERAL FUND REVENUE BUDGET 2019/20

- 3.1 Angus Council's Distributable Revenue Grant Support allocation for 2019/20 has been provisionally set at £204.922 million as detailed in Finance Circular (FC) 8/2018 issued on 17 December 2018.
- 3.2 Subsequent to Finance Circular 8/2018 the Council has been advised via Scottish Government and COSLA that it will receive an additional £1.967 million in revenue baseline grant for 2019/20 budget purposes. This is based on the revised budget proposals presented by Scottish Government at the Stage 1 Parliamentary debate on 31 January 2019. This additional allocation of grant is subject to final approval of the Scottish Budget by Parliament on 21 February but is considered suitable to assume for the purposes of setting the Council's budget. This increases the distributable revenue grant from £204.922 million to £206.889 million.
- 3.3 The Council's grant allocation is conditional upon the Council agreeing to deliver on some specific commitments (see below) as specified by the Scottish Government and as set out in the letter of 17 December 2018 and updated by subsequent correspondence.
- 3.4 For 2019/20 the Scottish Government has stated it "will work in partnership with local government to implement the budget and the joint priorities in return for the full funding package worth £11.1 billion which includes:-
- Baseline from 2019-20 of the full £170 million additional revenue investment announced earlier this year at Stage 1 of the Budget Bill for 2018-19;
 - An additional £210 million revenue and £25 million capital to support the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours by August 2020;
 - For 2019-20 local authorities will have the flexibility to increase Council Tax by 3% in real terms up to a maximum of 4.79%;
 - In addition to the £66 million baselined provision from 2018-19, a further £40 million is included to extend Free Personal and Nursing Care for under 65s, as set out in the Programme for Government, and continued implementation of the Carers (Scotland) Act 2016;
 - Additional funding of £160 million for Health and Social Care investment to support Social Care and Mental Health Services - including those under the direction of Integration Authorities – whilst, as part of this package allowing local authorities the flexibility to offset their adult social care allocation to Integration Authorities in 2019/20 by 2.2% compared to 2018/19.
 - Continue to commit an overall funding package of £88 million in the local government finance settlement to support both maintaining the pupil teacher ratio at a national level and ensuring that places are provided for all probationers who require one under the teacher induction scheme. It is recognised that discussions on teachers' pay are on-going through the tri-partite Scottish Negotiating Committee for Teachers and any additional allocation to fund a negotiated agreement will require to be agreed;
 - An indicative allocation of £3.3 million for Barclay implementation costs;
 - Repayment in full of the re-profiled £150 million capital funding (from 2016/17); and
 - A new £50 million Town Centre Fund to enable local authorities to stimulate and support place-based economic improvements and inclusive growth through a wide range of investments which contribute to the regeneration and sustainability of town centres.

The 2019/20 Angus Council allocation compared to the 2018/19 grant allocation per Finance Circular 8/2018 incorporating adjustments made in the 2019/20 Scottish Budget Stage 1 debate is set out in table 1 below :-

Table 1 – Angus Council Revenue Grant Allocation

	2018/19 £m	2019/20 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Distributable Revenue Funding (per Finance Circular 8/2018 and subsequent announcements)	201.428	206.889	5.461	2.7
Funding yet to be distributed*				
Teachers Induction Scheme	0.619	0.619		
Discretionary Housing Payments	0.109	0.675		
Early Years Expansion	0.106	0.000		
1+2 Languages	0.000	0.066		
Free Personal and nursing care for under 65s	0.000	0.600		
Mental Health (School Counsellors)	0.000	0.240		
Barclay Review Implementation costs	0.000	0.066		
Revised Revenue Funding Total	202.262	209.155	6.893	3.4
Grants paid out-with Settlement				
Pupil Equity Funding	0.051	0.000		
Criminal Justice Social Work	0.172	0.243		
Early Learning & Childcare Expansion	0.509	0.000		
Scotland's Schools for the Future	2.792	3.974		
TOTAL REVENUE FUNDING	205.786	213.372	7.586	3.7

* - estimated shares have been calculated using broad percentage shares and have yet to be confirmed by the Scottish Government. Some of the 2019/20 figures are the estimated shares used in the 2018/19 budget setting process.

The grant allocation also includes funding which needs to be set aside as it is either known or can be reasonably assumed will relate to specific costs or new initiatives which will incur additional costs in 2019/20. These items need to be deducted in order to compare the revenue grant position on a like for like basis. This is set out in table 2 as follows:-

Table 2 – Angus Council Allocation Adjusted for Earmarked Funding/Specific Commitments

	2018/19 £m	2019/20 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Total funding (per Table 1)	205.786	213.372	7.586	3.7
Less funding to be earmarked in base expenditure:				
Scotland Schools for the Future – Arbroath Primary	0.000	(1.182)		
Access to Sanitary Products - Schools	0.000	(0.043)		
Access to Sanitary Products – Public Bodies	0.000	(0.025)		
Free Child Burials	0.000	(0.005)		
Whole System Approach	0.000	(0.025)		
Rapid Rehousing Transition Plan Homelessness	0.000	(0.042)		
School Clothing Grant	0.000	(0.099)		
Free Personal and nursing care for under 65s	0.000	(0.600)		
Mental Health (School Counsellors)	0.000	(0.240)		

Barclay Review Implementation costs	0.000	(0.066)		
Carers Act Extension	0.000	(0.237)		
Health & Social Care Additional Funding	0.000	(2.560)		
Revised Revenue Funding Total	205.786	208.248	2.462	1.2
Adjustments to Specific Grant in base expenditure:				
Criminal Justice Grant	0.000	(0.051)		
Gaelic Grant	0.000	0.006		
Pupil Equity Funding	0.000	0.040		
Early Learning & Childcare Expansion	0.000	(3.928)		
Revised Revenue Funding Total	205.786	204.315	(1.471)	(0.7)

3.5 Table 2 shows that there is a net reduction in the core revenue grant on a like for like basis of £1.471 million (0.7%). This reduction in the grant available to the Council to meet cost increases and other budgetary pressures is part of the reason the Council has a funding gap and needs to find savings in its budget.

3.6 The proposals in this and the related budget reports for this meeting are intended to allow the Scottish Government's required commitments to be achieved albeit the Council Tax for 2019/20 won't be finalised until report 61/19 is considered by the Council and the Local Government Finance (Scotland) Order 2019 is approved by Parliament. Subject to these caveats it is considered that the Council can set its budget on the basis of the various elements of the funding deal being achieved.

4. FORMULATION OF BASE BUDGETS

4.1 Directorate base budgets have been prepared on an incremental basis using the 2018/19 budget as a starting point, allowing for those items of budget growth deemed allowable in accordance with the Head of Finance & Legal's guidance and taking cognisance of significant factors adversely or favourably impacting on to budgetary requirements for 2019/20. Base budgets have been reviewed for accuracy and adequacy through a technical validation process. The bulk of allowable budget growth in 2019/20 is made up of the annual cost of the incremental progression along pay scales, the agreed increase in employers' contributions to teacher's pensions and unavoidable commitments in respect of PPP projects.

4.2 **Appendix 1** sets out a summary of the Council's net expenditure position for 2019/20 based on the provisional base budgets and budget issues recommendations for each service. For ease of comparison the budget is presented on the basis of the Council's current management structure which includes People and Place Directorates. The Council's 2019/20 Final Revenue Budget Volume which will be published in April 2019 will reflect the new structure agreed by Council in Report 379/18.

5. REVENUE BUDGET SPENDING CONSTRAINTS

5.1 Budget spending levels are determined by the amount of revenue resources that are available to the Council. These resources comprise revenue grant support from the Scottish Government and income raised locally through the Council Tax and other fees and charges. In addition the Council may supplement these resources on an ad-hoc basis by taking money from General Fund balances (if available).

6. BUDGET RESOURCES EXPECTED TO BE AVAILABLE

6.1 It is not possible to confirm the total budget resources expected to be available to the Council for 2019/20 until key decisions on the setting of the Council Tax have been made (e.g. provision for non-collection, contributions to/from General Fund Balances and Special Funds, etc). These issues are covered in more detail in the separate Council Tax Setting Report (Report 61/19).

6.2 In the absence of such Council Tax decisions, assumptions have been made as to the likely level of resources so as to inform decisions regarding budget savings. On the basis of the Net Expenditure as detailed in the Summary Statement of Net Expenditure at Appendix 1, which assumes approval of the budget issues as set out in columns C & D; approval of the review of charges proposals (column E) and the other adjustments (column F) of Appendix 1, a shortfall of income over expenditure of £3.190 million will exist in 2019/20, of which £0.056 million is one-off. This assumes no increase in the Council Tax Charge (which will be decided at the Special

Council meeting) but does take into account the expected increase in the Council Tax base due to new houses coming on to the Council Tax register and the proposed revision to the allowance for non-collection of Council Tax.

- 6.3 The Change Programme underway across the Council is intended to deliver as much of the savings as possible for the 2019/20 budget and beyond. Accordingly there are no percentage savings targets for services to achieve and make proposals on as part of the budget submission process. Details of the Change Programme are shown in the Change Programme Report (56/19). The Change Programme is expected to deliver total savings of £10.220 million whereof £4.368 million relates to the Angus Health and Social Care Integration Joint Board. Those Change Programme savings for the Angus IJB have been deducted from the budget allocation shown in Appendix 1. The remaining Change Programme savings of £5.852 million are shown as a separate line in Appendix 1. The savings will be allocated to individual Service budgets for production of the Council's Final Revenue Budget Volume in April.
- 6.4 The audited General Fund uncommitted balance at 31 March 2018 was £2.604 million. This uncommitted balance position is after allowing for an earmarked contingency sum of around 1.5% of the net revenue budget (£4.0 million) and it is considered prudent to continue with this position to address any significant one-off issues which may arise during the course of the current and forthcoming financial year. This contingency sum will also provide a suitable financial base for future years as part of the Council's medium term budget strategy.

Officers have reviewed resources earmarked (set aside) in reserves for future use and have concluded that £0.414 million of these are no longer required on a priority basis. De-committing these resources means they can be used to support the 2019/20 revenue budget.

The change programme report 310/18 explained that for a small number of projects the level of savings originally anticipated will not be achieved in 2018/19 and will alternatively be achieved in 2019/20. This delay caused a shortfall in the 2018/19 revenue budget compared to the position agreed in February 2018 of £0.665 million and it was agreed at Policy & Resources Committee on 9th October 2018 (Report no 312/18) that this could be funded from the uncommitted General Fund Balance on a one off basis.

The latest revenue budget monitoring report to the Policy & Resources Committee on 29 January 2019 (committee report 26/19 refers) reported a projected adjusted underspend for 2018/19 (after allowing for approved earmarked monies) of £1.315 million which would flow into the General Fund Balance at the year end.

After allowing for all of the above adjustments a combined uncommitted balance over and above the £4m contingency of £3.668 million is currently projected on the Council's General Fund by 31 March 2019 as set out in Table 3 below:-

Table 3 – Uncommitted General Fund Balance

	£m
Uncommitted General Fund Balance per the 2017/18 Audited Accounts	2.604
Officers review – monies de-committed	0.414
Drawdown for 2018/19 Change Programme Savings	(0.665)
Projected 2018/19 underspend, committee report 26/19 refers	1.315
Estimated Uncommitted General Fund Balance at March 2019	3.668

In addition to this the Council has received two sizeable receipts being £3.4 million for a VAT refund and £2.8 million from the new residual waste contract. Further commentary on the Council's General Fund reserves and the possible use thereof is given in the Council Tax setting report (Report 61/19)

- 6.5 In light of the ongoing challenges affecting the Council's budget and in order to avoid further cuts in essential services, the option of implementing an increase in Council Tax for 2019/20, could be considered unavoidable in order to limit the impact on services to the public. As permitted by the Scottish Government in their 2019/20 Finance Settlement offer the Council can chose to increase the Council tax by a maximum of 4.79%. If this option was agreed this would provide the Council with increased Council Tax income estimated at £2.531 million which along with the

other measures described in this report would assist the Council to set a balanced budget for 2019/20.

7 OTHER ISSUES PERTINENT TO THE 2019/20 REVENUE BUDGET

7.1 The following issues are also relevant to the consideration of the 2019/20 Provisional Revenue Budget set out in this report.

7.2 Angus Health and Social Care Partnership (IJB)

The Statement of Net Expenditure at Appendix 1 shows that the Council's proposed budget allocation to the IJB is £47.502m. This is based on a starting position of "flat cash", i.e. the same allocation as in 2018/19 plus additional Scottish Government Funding of £3.397 million offset by a proposed reduction of 1% of the 2018/19 base, £0.445 million i.e. a net £2.952m increase. As part of the Finance Settlement local authorities had the flexibility to reduce their adult services social care allocations to Integration Authorities in 2019/20 by 2.2% compared to 2018/19. This proposed allocation to the Angus IJB assumes that £4.368 million of budget issues and pressures affecting the IJB adult services budget in 2019/20 will be met from a combination of the additional Government resources provided and other savings identified by the IJB.

7.3 Budget Issues (Unavoidable Cost/Demand Pressures)

Through the budget process a number of areas were identified where an unavoidable increase in budget is required in 2019/20. These were discussed and reviewed in detail by the Policy & Budget Strategy Group (PBSG).

Budget issues recommended

Overall a total of £1.333 million is recommended for funding, comprising £0.056 million one-off issues and £1.277 million on an ongoing basis. All of these budget issues have been added into service revenue budgets. A description of these budget pressures for each service can be found in the Provisional Revenue Budget Volume (Report 58/19) under the Budget Issues section.

The recommended additions to the service provisional revenue budgets in respect of these budget issues are set out in column C & D of the Statement of Net Expenditure at Appendix 1.

In addition the budget proposes to make provision for some additional cost pressures or specific issues as detailed in Appendix 1. The most significant items are listed below:-

- Pay Award - £7.918 million to cover the costs of potential pay increases for all staff including teachers and Tayside Contracts. This provision takes into account the current pay offers which are still to be agreed for 2018/19 and 2019/20, these figures continue to carry an element of risk and in relation to the pay negotiations for teachers assume that the Scottish Government will provide additional funding for that proportion of the deal beyond the standard pay award policy of the Scottish Government
- Energy Costs - £0.420 million to cover the projected wholesale energy price increases based on price risk guidance 38 which was received from the Scottish Procurement Framework for energy.
- Other Services includes a provision of £0.500 million for additional burdens. This provision will be used if required to meet any budget issues arising during 2019/20 which cannot be managed via service budgets.

Budget issues to be funded through compensating savings

As part of the 2019/20 budget process, Infrastructure Services submitted budget issues around the inflationary impact on Winter Maintenance and the Local Bus Service Provision totalling £0.132 million. These were considered, along with all the other budget issues, by the PBSG and the recommendation was for these to be self-funded by finding compensating savings in these service areas. Officers' prepared compensating savings options which have been considered by the PBSG and the following savings are proposed as part of the overall budget package for 2019/20:-

Winter Maintenance

- Reduce part of the route (A19, Inverarity, Kellas, Murroes, Greystone) to non-priority as no longer used by the school bus and remainder would be delivered by sub-contracting. Resulting in a savings of £0.049 million.
- Sub-contract K39 (Kirriemuir, Memus, Noranside, Glen Moy) this would produce a saving of £0.049 million.

Local Bus Service Provision

- Terminate contract A523, two morning bus services for route 47. There are alternative services for school pupils travelling to Montrose Academy, saving of £0.040 million.
- Terminate contract A524, two evening bus services for 47. Again there are alternative services for school pupils and other users saving of £0.042 million.

The combined annual savings from the above proposals total £0.180 million and this exceeds the budget issue of £0.132 million submitted for 2019/20 by £0.048 million. This additional saving will be carried forward and made available to offset inflationary budget issues which will occur again in 2020/21.

7.4 Review of Charges

The PBSG agreed to adopt a new policy for the review of charges as recommended by officers to introduce a Council wide RPI increase on charges for 2019/20 and onwards. This proposed policy would be applied as a default or starting position, unless there are exceptional circumstances. For 2019/20 the RPI at May 2018, of 3.3%, has been used.

As part of the budget process a number of services have identified proposals for reviewing the charges levied for the provision of certain Council services in accordance with this policy. These are the subject of separate reports to this meeting of the Council (reports 52/19, 53/19 refer). The financial impact of the proposed review of charges has been reflected in the provisional revenue budget figures shown in column E of Appendix 1.

7.5 Other Adjustments

There are a number of other adjustments made on the Net Expenditure Summary, Appendix 1, column F which are not explained in specific paragraphs to this report and these are as follows:

- Schools & Learning, £1.182 million - new funding from Scotland's Schools for the Future for Ladyloan and Muirfield Primary Schools in Arbroath;
- Schools & Learning, Teachers Pensions – Employers Costs £0.460million (net impact – see para 7.11 for more information)
- Angus Health & Social Care Partnership, £2.952 million – see paragraph 7.2 above;
- Other Services, £0.549 million – grant funding that requires to be earmarked in base budgets, still to be allocated to Services;
- Specific Grants Netted off with Services, £3.933 million – increase in specific grants to be earmarked.

7.6 Capital Financing Costs (Loan Charges)

The separate Prudential Indicators report (Report 63/19) outlines that the provision for capital financing costs within the 2019/20 revenue budget is considered sufficient to meet the commitments as contained in the Provisional Capital Budgets Volume (Report 59/19). This is after applying a £0.500 million saving to this budget. However it should be noted that any material amendment to the capital budget for 2019/20 would almost certainly necessitate amendment to the Prudential Indicators, and could require amendment of the capital financing costs budget provision. Any amendment to the capital financing costs budget would also have consequences in respect of the overall revenue budget for 2019/20.

7.7 Surplus Local Tax Income & MOD Council Tax Income

A budgeted allowance of £0.200 million has been included in the budget summary at Appendix 1 in respect of Surplus Local Tax Income and Council Tax income on Ministry of Defence (MOD) properties. The delivery of the surplus local tax income will be dependant upon continued good performance on Council Tax collection by Finance officers and is not necessarily guaranteed for future years.

7.8 Council Tax – Policy on long term empty properties and second homes

In 2013 and 2016 new legislation was introduced by the Scottish Government in relation to Council Tax income generated on long term empty properties and second homes respectively. The legislation allowed local authorities to reduce the discount on second homes and long-term empty properties below the 10% limit that was set to generate new income. This income did not need to be ring fenced for affordable housing and could be used as the local authority saw fit on housing or other priorities. Committee reports 205/14 and 427/16 recommended that the income raised from applying an additional 100% Council Tax levy on long term empty properties and reducing the existing discount on second homes from 10% to nil would be used towards affordable housing and not used on other priorities which was agreed by members.

The Council's huge financial challenges on General Fund services and by contrast the very strong financial position of the Council's Housing Revenue Account mean that there is an opportunity to review how the funds raised from the current policy on long term empty properties

and second homes are utilised. The Council can afford to increase the supply of housing in Angus through its Housing Account and by using resources already earmarked for affordable housing in the Affordable Housing Revenue Account (AHRA). This means the resources currently raised can be redirected to support General Fund services without significant detriment to the Council's ambitions to increase housing supply overall.

Using all of the money raised through the existing policies on long term empties and second homes to support General Fund services would result in the AHRA eventually being exhausted so to recognise the original policy intent it is recommended that the Council change how the funds raised are used. It is recommended that from 1 April 2019 the funds raised be split 75% General Fund and 25% AHRA in place of the current position where 100% of the funds raised go to the AHRA. Based on expected yields this would mean £0.250 million going to the General Fund and £0.085 million going to the AHRA. On the assumption that members approve this revised approach the General Fund element (£0.250 million) has been used to help balance the 2019/20 revenue budget.

7.9 Joint Board / Arrangement Budgets

The 2019/20 revenue budget for the Tayside Valuation Joint Board was agreed at the Board meeting in January 2019. Angus Council's budgeted share of the Joint Board's net expenditure is £0.743 million, excluding Electoral Registration Services which are budgeted for separately within Other Services.

The 2019/20 revenue budget for the Tayside Contracts Joint Arrangement has yet to be determined. However, from current information available, the Angus share of the total estimated surplus for 2019/20 is £0.460 million.

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

7.10 Investment Options – For Consideration

Report 51/19 which is on the agenda for the Special Council meeting presents the proposed new Council Plan. The Plan emphasises the priorities of the Council and our ambitions for Angus. Realisation of those ambitions will require investment of resources some of which will come from existing Council budgets but in some areas additional investment is required.

Potential areas of investment were submitted by officers from various services and have been assessed by Senior Officers of the Council's Leadership Team. Those which CLT believe will make the biggest contribution to the Council's priorities are detailed in Appendix 3. Decisions regarding these investment options will require to be made at the Special Council meeting. For the avoidance of doubt all of the investment options listed in Appendix 3 would require to be funded on a temporary basis using one-off reserve funds rather than being a permanent addition to the base budget at this point in time. Further comment on the use of Reserves overall is included in the Council Tax report (Report 61/19).

7.11 Teachers Pensions – Employers Costs

As employer Angus Council is required to pay a percentage of teachers gross pay into the Teachers Pensions Fund administered by the Scottish Government. The percentage is currently 17.2%. Changes made to actuarial assumptions by HM Treasury in the 2016 and 2018 UK Budgets will result in an increase in the employer contribution rate to 22.4% from 1 April 2019. The cost of this change to Angus Council is estimated at £2.2 million.

The impact of this change which has significant financial consequences nationally has been discussed at length by COSLA with UK and Scottish Governments. The UK Government has committed to part fund the increase in costs but the detail of this will not be known until the Chancellor announces the Spring Budget Statement in March 2019. The Scottish Government has committed to pass on to Councils the Barnett formula consequential that it receives towards the employers' cost increase for local government Teachers' Pension schemes. COSLA and Scottish Government have estimated that Councils will receive funding to cover 79% of the cost increase leaving 21% to be funded by Councils. In Angus this means a cost of £0.460 million and this has been added to the 2019/20 revenue budget.

Although the financial implications are significant and at the time of writing there is a lack of absolute certainty over the funding which will be received the assurances provided by the UK and Scottish Government provide sufficient confidence to allow the Council to only include the net impact from this change in its budget. Should a different outcome than that assumed for budget purposes arise this will need to be covered from the Council's General Fund contingency balance.

7.12 Summary Budget Position

Table 4 below summarises the total budget gap and the measures proposed to address it. How the gap will be closed in full will be determined at the Special Council meeting on 21 February 2019.

Table 4 – Balancing the 2019/20 Revenue Budget

	Ongoing £m	One-Off £m	Total £m
Gross Funding Gap	15.196	0.056	15.252
Less Change Programme Savings - AHSCP	(4.368)	0.000	(4.368)
Less Remaining Change Programme Savings	(5.852)	0.000	(5.852)
Less Other Savings & Adjustments Reflected in Appendix1:			
1% reduction in Angus IJB funding (para 7.2)	(0.445)	0.000	(0.445)
Review of Charges Income (para 7.4)	(0.147)	0.000	(0.147)
Reduction in Loan Charges budget (para 7.6)	(0.500)	0.000	(0.500)
Review of Council Tax Discounts (para 7.8)	(0.250)	0.000	(0.250)
Additional savings in Facilities Management	(0.050)	0.000	(0.050)
Expected increase in Council Tax Base (Report 61/19)	(0.315)	0.000	(0.315)
Reduction in Council Tax Non-collection (Report 61/19)	(0.135)	0.000	(0.135)
Adjusted Gap Before Council Tax and Investment Options	3.134	0.056	3.190
Investment Options	<i>TBC</i>	<i>TBC</i>	<i>TBC</i>
Potential Council Tax Increase	<i>TBC</i>	<i>TBC</i>	<i>TBC</i>
Contributions to/from Balances and Special Funds	<i>TBC</i>	<i>TBC</i>	<i>TBC</i>
Net Position (must be nil to achieve balanced budget)	Nil	Nil	Nil

7.13 Common Good Budgets 2019/20

Common Good Budgets for 2019/20 are still under preparation in consultation with local members and will be submitted for approval to the Policy & Resources Committee in due course.

8 **KEY ASSUMPTIONS & RISKS**

8.1 The Council has a statutory duty to set a “balanced” budget each year taking into account the estimates of its expenses and incomes for the period. As members will appreciate all budgets are, by definition, only a best estimate and therefore carry a degree of risk. It is important to assess each year’s proposed budget from the perspective of the risk inherent and the resilience of that budget to changing circumstances.

8.2 Management of Budget Risks in General

The management of budget risk is integral to the Council’s approach to budget setting and critically no Head of Service is required to accept a budget which they don’t believe is capable of delivery. There are however 4 main elements to the management of budget risks by the Council which are worth highlighting as described below.

- Assessment of Budget Issues

The Council’s budget process ensures that all significant budget issues that require investment can be raised by Services and discussed and assessed by both officers and members prior to the budget being set. A process of risk assessment is applied through the budget process so that if resources don’t allow budget issues to be recognised in full there is an understanding of how much risk is involved in taking such a decision.

- Savings Capable of Delivery

The Change Programme is the primary route through which savings in budgets are being identified and delivered. Change Programme projects are at different stages in their life cycle with some complete and being implemented and others requiring further work to finalise where the savings will come from in the existing budgets. All projects with savings for 2019/20 are expected to be complete or in their implementation phase by quarter 1 of 2019/20.

Based on the latest information provided by project leads and the review of all projects in the Change Programme by the Council Leadership Team and Change Board officers are confident of achieving the targeted savings for 2019/20. Nevertheless there is a risk that some downward movement against expected savings could emerge as projects are implemented or if any project implementation is delayed. At the point of setting the 2019/20 revenue budget that risk is considered to be low but should it arise the Council has

reasonable contingency funds to manage that risk during 2019/20. The Council has a long history of taking difficult but pragmatic decisions on budget savings and of such savings being achieved. Further commentary on the budget provision for Change Programme risks is given in the Council Tax report (Report 61/19)

- Provision for Inflation

Inflation and other pressures on costs caused by demand or changing circumstances are a key consideration of each year's budget process. In broad terms the Council does not normally provide for the effects of general inflation within the budget but rather provides additional resources where these are needed for specific spending pressures (as identified through the budget issue process).

- Contingencies / Special Funds

Another critical element of the Council's management of budget risk is the availability of contingencies both within the budget and in funds and balances. The current contingency in the General Fund Balance is £4.0 million. There have been significant funds available to contribute to Special Funds over previous financial years, however due to the current financial climate no funds are now available to contribute to the Special Funds. Financial year 2018/19 was the last year of the prudential code strategy and no provision has been made for 2019/20.

Within the revenue budget itself the Council holds a contingency sum of £0.500 million in the provision for additional burdens budget.

8.3 The above approach seeks to ensure as far as possible that the Council does not set its budget based on unrealistic assumptions or targets but the management of budget risk continues once the financial year has commenced through the various budget monitoring activities which are undertaken.

8.4 In addition, all budget submissions have been considered from a risk perspective and no unmanageable risk issues have been identified for those proposals submitted for approval.

8.5 Provision within the 2019/20 budget for other risk items and uncertainties has also been allowed for (paragraph 7.3 refers).

8.6 Potential Risks Caused by Brexit

Regular updates on the Council's preparations for Brexit have been provided to the Policy & Resources Committee over the last year or so. Uncertainty continues to surround the form Brexit will take and the implications of that. There is a possibility of additional Government funding being provided to local authorities as part of the Brexit process but there is no certainty in this regard and the Council's 2019/20 revenue and capital budgets therefore currently include no allowance for such potential income. In terms of the risk of additional costs no specific provision has been made in the revenue or capital budgets for 2019/20 for Brexit consequences. These risks will accordingly be managed as part of the Council's overall budget risk management strategy and contingency and reserves funds set aside for those purposes.

8.7 In summary as author of this report and based on the information and assurances provided by Change Programme project leads regarding savings delivery I am content that based on the latest information available and my discussions with the Chief Executive and the Council Leadership Team that the proposed 2019/20 revenue budget is realistic and achievable. I also believe that reasonable contingency provision has been or will be made in both the budget and through balances which will deliver a budget which has a degree of resilience to deal with changes in circumstances or additional cost pressures which might arise during 2019/20.

8.8 Members will however appreciate that further risk lies beyond the 2019/20 budget in relation to possible further funding reductions in real terms which seem likely to apply. Further comment on this is given at Section 9 of this report but the key issue is to set a budget for 2019/20 that is realistic and which can provide flexibility for future years.

9 PROSPECTS FOR 2020/21 & BEYOND

9.1 Members will be aware that the financial challenges facing local government are set to continue for the foreseeable future so with this in mind Members are asked to note the following in the context of the 2019/20 budget setting process:-

- The Council needs to set a 2019/20 budget which recognises that significant financial challenges will continue beyond 2019/20, i.e. there is a need to be responsible, prudent and

avoid taking short term decisions. The budget proposals for 2019/20 have accordingly sought to balance the need for investment in services now with the need to provide financial flexibility into the future.

- Council Services need to continue to consider very carefully the extent to which they enter into longer term expenditure commitments moving forward. It must be recognised that any additional expenditure on a particular service will simply increase the burden of savings to be made in other areas. All Heads of Service have been reminded of this as part of finalising the 2019/20 budget strategy.
- Using the Medium Term Budget Strategy (Report 263/18 refers) the most up to date Change Programme estimates and allowing for the 3rd year of the proposed pay deal on offer to all staff including teacher's the position for 2020/21 and 2021/22 is currently projected to be as follows:

Table 5 – 2020/21 and 2021/22 Estimated Funding Gap

	2020/21 £m	2021/22 £m	2 Year Total £m
Projected Funding shortfall	11.900	9.200	21.100
Impact of Revised Pay Award Offers	1.100	1.400	2.500
Adjustment for 2019/20 funding gap dealt with on a one-off basis (note 1)	3.190	0	3.190
Sub-total	16.190	10.600	26.790
Change Programme savings	(8.580)	(6.001)	(14.581)
Estimated funding gap still to be addressed (note 2)	7.610	4.599	12.209

Note 1 – this figure assumes no increase in Council Tax is applied in setting the 2019/20 budget as this has still to be determined so is shown for illustrative purposes only at this stage.

Note 2 – remaining funding gap in 2020/21 and 2021/22 is based on no Council Tax increase. A 3% increase in each year would yield circa £3.2 million over the 2 years to help close the gap. Further savings options for those years will need to be identified.

- 9.2 Table 5 shows that a funding gap remains to be bridged but significant progress is being made towards addressing that gap as the Change Programme develops. In particular members should note that the Change Programme figures for 2020/21 and 2021/22 require review and refinement and in many cases are currently based on best estimates pending the full scope of some of the reviews being developed. Members are asked to note the high level projected funding gap and savings position for 2020/21 and 2021/22 as set out in Table 5 in setting the 2019/20 revenue budget.
- 9.3 During the course of preparing the 2019/20 revenue budget 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. These issues are summarised below:-
- Demographics – changes to the population are placing increased pressures on certain council and partner services. There is likely to be a requirement for increased investment in these services over the medium term.
 - Third Party Inflation – third party providers of services on behalf of the Council are likely to continue to place additional strain on the council in future years to recognise their cost pressures. Although the council is committed to working with providers to increase efficiencies, it is likely further investment will be necessary to continue delivery of these critical services.
 - Angus Health and Social Care Partner (IJB) – there are a number of risks within the budget provision for Older People and Adult Services, which was devolved to the Angus Integration Joint Board on 1 April 2016. Further detail is provided in Report 54/19, “Devolved Budget to Angus Health and Social Care Integration Joint Board 2019/20”. In particular Angus Council

is now exposed to a share of the whole risk of the activity of the Angus IJB covering both health and adult social care services.

- Angus Alive – the proposed budget settlement between the Council and Angus Alive is covered in more detail in Report 55/19. The Angus Alive Finance Sub Committee considered the budget proposal on 25 January 2019, although the full Board will only consider the proposal at their meeting of 22 February 2019 so this remains an area of risk until agreement is reached with the full Board.

9.4 An update of the Council's Medium Term Budget Strategy (report 263/18) will be provided later this year and will pick up the impact of these issues.

10 REVENUE BUDGET DOCUMENTATION

10.1 The revenue budget information required for the Special Meeting of Angus Council on 21 February 2019 is contained in this report and the under-noted report: -

Report 58/19 – 2019/20 Provisional Revenue Budget Volume

10.2 This Volume contains a summary of each Service's budget submission for 2019/20 and a description of the proposed budget issues as they affect each service area.

11 BACKGROUND – GENERAL FUND CAPITAL BUDGET 2019/20

11.1 Capital budget preparation guidance was issued by the Head of Finance & Legal outlining the procedures to be followed in the preparation of the 2018/2023 Financial Plan and 2019/20 capital budget and requiring directorates / divisions to submit financial plans based on an approved list of priority projects, as well as details of proposed new priority projects.

11.2 Table 6, below, details the various meetings at which capital budget strategy, issues relating to specific capital projects, financial plan submissions and new priority project bids were considered:

Table 6

Policy & Budget Strategy Group	20 November 2018, 18 December 2018, 24 January 2019
All Council Budget Strategy Briefing	8 February 2019

11.3 A programme of long-term funding strategy measures has been developed which is intended to maintain levels of capital expenditure into the future. Report 62/19 on the long-term affordability of the General Fund Financial Plan provides more detail of the measures which have been developed.

12 CAPITAL RESOURCES

12.1 Background

The 2018/2023 Financial Plan, incorporating the 2019/20 capital budget, has been prepared under the self-regulating Prudential Code regime.

Under the Prudential Code the level of capital expenditure is not 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. The 2018/2023 Financial Plan has been prepared in this context and further information relating to the Prudential Code is contained in Report 63/19.

12.2 2019/20 Local Government Finance Settlement

Finance Circular 8/2018 (issued on 17 December 2018) provided details of funding allocations for 2019/20. No definitive information is available for 2020/21 onwards. Table 7, below, details Angus Council's capital grant support from Scottish Government for 2019/20:

Table 7

Funding Source	2019/20 £m
General Capital Grant (including Arbroath Flood)	14.314
General Capital Grant – Re-profiled from 2016/17	2.426
Specific Capital Grant - Cycling, Walking and Safer Streets	0.191
Specific Capital Grant – Early Years Expansion	3.200
Total Support for Capital	20.131

12.3 Members are asked to note that Government supported borrowing was removed in 2011/12 and this continues to be the case. This means that all borrowing which is now undertaken by Angus Council is in effect 'prudential borrowing'.

13 KEY POINTS OF NOTE FOR CAPITAL BUDGET SETTING

13.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (2017 Edition) introduced a new requirement for the production of a capital strategy, with effect from 2019/20 onwards. The purpose of the capital strategy is to demonstrate that an authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. Angus Council's capital strategy for 2019/20 is presented at agenda item 5(i) of this meeting (report 60/19) refers.

13.2 A thorough exercise has been carried out by Finance officers to assess the long-term affordability of the 2018/2023 Financial Plan. Full details of that assessment are provided in report 62/19.

13.3 In preparing the 2019/20 capital budget existing projects have been reviewed and additional resources are recommended for a small number of new high priority capital projects / programmes, which are now included in the Provisional Capital Budget Volume (report 59/19):

- £5.850 million for roads capitalised maintenance;
- £450,000 for property capitalised maintenance;
- £100,000 for ground maintenance machinery replacement programme;
- £800,000 for general vehicle replacement programme;
- £250,000 for schools information and communication equipment;
- £170,000 for IT infrastructure and hardware refresh programme;
- £28,000 for play area surfacing upgrades;
- £26,000 for Aberlemno Cemetery extension;
- £55,000 for winter weather station repair / renewal;
- £196,000 for local flood risk management plan projects;
- £255,000 for reservoirs infrastructure repairs;
- £50,000 for South Links holiday park drainage;
- £401,000 to support Angus Schools for the Future programme development;
- £290,000 to support Wifi at Edzell, Craigowl and rural schools;
- £60,000 for purchase of Eclipse equipment;
- £769,000 to support analogue to digital community alarm programme
- £500,000 for Arbroath Harbour Ballast Quay repairs;
- £100,000 for alterations to school production kitchens (Tayside Meals Centre).

13.4 The proposed capital budget also allows for a total contingency level of £3.239 million and a specific provision for the Tay Cities Deal of £4.500 million over the 5 years of the financial plan.

13.5 Town Centre Fund

Finance Circular 8/2018 issued by Scottish Government in December 2018 advises that a new £50 million Town Centre Fund would be available “to enable local authorities to stimulate and support place-based economic improvements and inclusive growth through a wide range of investments which contribute to the regeneration and sustainability of town centres”. At the time of writing this report no further details on this Fund have been provided so no projects or funding relating to it have been included in the Council’s capital budget proposals.

14 **2018/2023 FINANCIAL PLAN (INCORPORATING THE 2019/20 CAPITAL BUDGET)**

14.1 The 2018/2023 Financial Plan details, for the General Fund, the total cost and phasing of the priority capital projects to be undertaken by Angus Council over the next 5 years. These costs are shown on an outturn basis, i.e. including an allowance for inflation. The capital expenditure on each departmental capital programme is differentiated, for budget planning purposes, between that which is anticipated to be legally committed by 31 March 2019 and that which is not anticipated to be legally committed by 31 March 2019.

14.2 Appendix 2 provides a summary of the provisional service capital budgets for 2019/20 as contained in the Provisional Capital Budget Volume and shows an estimated net capital expenditure of £31.551 million. Appendix 2 also shows that after the inclusion of the agreed contingency and removal of the oversubscription level built into the programme, as well as the application of corporate capital receipts and general Scottish Government capital grant, the funding of the provisional capital budget will require new borrowing (before the application of assumed slippage) of £13.314 million in 2019/20.

15 **CAPITAL BUDGET DOCUMENTATION**

15.1 The capital budget information required for the Special Budget Meeting on 21 February 2019 is contained in both this report and report 59/19 – Provisional Capital Budget Volume. The budget volume contains details of each Service’s budget submission for 2019/20 and their overall financial plan submission for the period 2018/2023.

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 any material extent in preparing the above report are:

- Finance Circular 8/2018 issued on 17 December 2018 by the Scottish Government;
- Letter of 31 January 2019 from the Cabinet Secretary for Finance, Economy and Fair Work to COSLA President

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List of Appendices:

Appendix 1 - Statement of Net Expenditure

Appendix 2 - Provisional Capital Programme

Appendix 3 – Potential Areas of Investment