

**ANGUS COUNCIL**

**SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 18 FEBRUARY 2016**

**PROVISIONAL REVENUE & CAPITAL BUDGETS 2016/17 – BACKGROUND REPORT**

**REPORT BY THE HEAD OF CORPORATE IMPROVEMENT & FINANCE**

**ABSTRACT**

The purpose of this report is to apprise Members of the provisional revenue budget submissions of each Council directorate 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 directorates with capital expenditure.

**1. RECOMMENDATIONS**

1.1 It is recommended that the Council:-

- i) Note that the Angus Council Revenue Grant Support allocation for 2016/17 was provisionally set at £196.716 million, per Finance Circular 7/2015 as set out in section 2;
- ii) Note the provisional revenue budget submission(s) as contained in the 2016/17 Provisional Revenue Budget & Savings Proposals Volume (Report 61/16) and summarised in **Appendix 1** as the base budget;
- iii) Note and approve the investment bids as detailed in the Provisional Revenue Budget & Savings Proposals Volume (Report 61/16) and shown in columns C and D of the Summary Statement of Net Expenditure at **Appendix 1** that have been added to directorate budgets;
- iv) Note that the savings for 2016/17 which are classified as “On Target” in the Provisional Revenue Budget & Savings Proposals Volume (Report 61/16) are those which were previously approved in report 60/15 and remain unchanged
- v) Note the savings for 2016/17 in the Provisional Revenue Budget & Savings Proposals Volume (Report 61/16), previously approved in Report 60/15 to the Special Meeting of the Council on 12 February 2015, which are classified as “No longer deliverable or requiring amendment”;
- vi) Approve the budget savings proposals for 2016/17 outlined in the 2016/17 Provisional Revenue Budget & Savings Proposals Volume (Report 61/16) which have replaced those savings no longer considered deliverable and have been prepared on a basis which will allow Angus Council to set a balanced and sustainable revenue budget in line with the level of resources expected to be available in 2016/17;
- vii) Approve the additional 1% budget savings proposals for 2016/17 outlined in the 2016/17 Provisional Revenue Budget & Savings Proposals Volume (Report 61/16);
- viii) Approve the Transforming Angus Tier 1 Review savings proposals outlined in **Appendix 2**;
- ix) Note and approve the Common Good Fund bids for funding as shown in **Appendix 3**;
- x) Approve the provisional capital budget submission(s) as contained in the 2016/17 Provisional Capital Budget Volume (report 62/16);
- xi) Note the commentary as set out in Appendix 5 on the extent to which the budget proposals deliver on the Priority Based Budgeting principles agreed by the Council; and

- xii) Note the prospects for public spending in 2017/18 & beyond, including the areas of strategic priority / budget risk that may require future investment, as set out in section 10 of this report.

## 2. ALIGNMENT TO ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT

- 2.1 The revenue and capital budget proposals set out in this report, including the investment bids recognised and the budget savings being recommended, have been assessed for their impact on the achievement of the Council's corporate priorities and the specific targets and objectives within the Single Outcome Agreement. Following this assessment the budget as proposed (and subject to the further decisions to be made on the use of balances and special funds) 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. Savings have been applied to each directorate based on those savings considered achievable and investment bids have been recognised in priority areas of service to meet unavoidable commitments. Proposed capital budgets also reflect the Council's corporate priorities.

## 3. BACKGROUND - GENERAL FUND REVENUE BUDGET 2016/17

- 3.1 Angus Council's Revenue Grant Support allocation for 2016/17 has been provisionally set at £196.716 million as detailed in Finance Circular (FC) 7/2015. This is a gross decrease in headline revenue grant support of £8.787 million (4.3%) compared with the level of grant support for 2015/16 (£205.503 million). However, after adjusting for funding which has not yet been distributed for 2016/17 in respect of Free School Meals, Discretionary Housing Payments and Teachers Induction Scheme (estimated at £1.512 million in total), there is a projected net decrease of £7.275m (3.5%) compared with grant support received in 2015/16.

This net reduction in funding has been partially offset by the Council's share of the £250 million additional resources provided from the Health budget to Integration authorities in 2016/17 for social care. Further detail on this is provided in Report 59/16.

Table 1 below summaries the movement in revenue grant support:-

Table 1 – Revenue Grant Support

	£m	£m
<b>2015/16 Budgeted Revenue Grant Support</b>		<b>205.503</b>
Adjustments per FC 7/2015:		
<i>Additional Resources:</i>		
Children & Young People Bill		
Children & Young People's Act	0.026	
Additional Early Learning & Childcare (2 yr. olds)	0.167	
Continuing Care	0.037	
Through Care & Aftercare	0.008	
Kinship Care	0.178	
Changed Eligibility for Aftercare	0.011	
GIRFEC (Getting It Right For Every Child)	0.209	
Scottish Welfare Fund	0.025	
Council Tax Reduction Scheme	0.100	0.761
Council Tax Freeze		1.398
General Reduction		(10.946)
<b>Total Adjustments</b>		<b>(8.787)</b>
<b>Sub-total per Finance Circular 7/2015</b>		<b>196.716</b>
<b>Add Funding yet to be distributed</b>		1.512
<b>Total Estimated Revenue Grant Support</b>		198.228
<b>Integration Funding (budget drawdown from IJB)</b>		2.463
<b>2016/17 Revenue Grants from Scottish Government</b>		<b>200.691</b>

- 3.2 This level of grant 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 27 January 2016 from the Deputy First Minister. The grant and conditions attached to it have been confirmed as an all-inclusive package which must be accepted in full to avoid grant claw

back sanctions being applied. If the Council does not commit to all of the requirements of the funding package offered from the Scottish Government, then the Council's revenue grant support for 2016/17 will reduce by approximately £8.570 million (4.3%).

3.3 The main commitments that the Council is expected to deliver as part of the 2016/17 Settlement being offered are:

- to maintain the current Council Tax freeze;
- to maintain teacher numbers on an all-Scotland basis in line with current pupil:teacher ratios, including securing places for all probationer teachers who require a place under the teacher induction scheme. There is no local target for Angus, but to protect our position and avoid the risk of a sanction at a later point we should plan to maintain our current local ratio for the 2016 School Census;
- of the £250 million additional funding to Integration authorities, 50% is to be used to support additional spend on expanding social care to support the objectives of integration. The remaining 50% is to be used to help meet a range of existing costs in the delivery of effective & high quality health and social care services in the context of reducing budgets, which includes the delivery of the Living Wage for all social care workers including in the independent and third sectors.

3.4 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 freeze won't be determined until report 63/16 is considered by the Council and the Local Government Finance (Scotland) Order 2016 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. PRIORITY BASED BUDGETING – DELIVERY OF STRATEGY & PRINCIPLES**

4.1 Report 348/15 set out a broad Priority Based Budgeting (PBB) Strategy for 2016/17 and beyond which was based around a number of principles which officers were remitted to try to ensure were achieved in preparing a draft budget package for the Council. It is considered that the budget package for 2016/17 presented in the Provisional Revenue Budget & Budget Savings Proposal Volume (report 61/16) delivers much of the principles which elected members have endorsed through the Priority Based Budgeting process. It has not however been possible to shift resources on a significant scale because of the size of the funding gap, unavoidable budget pressures which need to be addressed and the constraints around statutory duties and Scottish Government policies on teacher numbers. The budget package recommends those savings considered to be the most palatable and recommends budget uplifts to recognise unavoidable cost pressures in key areas of service to the public. A more detailed commentary on the extent to which the PBB principles would be achieved by the budget proposals set out in the various reports for Council on 18 February 2016 is attached as Appendix 5.

#### **5. FORMULATION OF BASE BUDGETS**

5.1 Directorate base budgets have been prepared on an incremental basis using the 2015/16 budget as a starting point, allowing for those items of budget growth deemed allowable in accordance with the Head of Corporate Improvement & Finance's guidance and taking cognisance of significant factors adversely or favourably impacting on to budgetary requirements for 2016/17. Base budgets have been reviewed for accuracy and adequacy through a technical validation process. The bulk of allowable budget growth in 2016/17 is made up of the annual cost of the incremental progression along pay scales and unavoidable commitments in respect of PPP projects.

5.2 **Appendix 1** sets out a summary of the Council's net expenditure position for 2016/17 based on the provisional base budgets and budget savings proposals for each Directorate.

#### **6. REVENUE BUDGET SPENDING CONSTRAINTS**

6.1 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).

## **7. BUDGET RESOURCES EXPECTED TO BE AVAILABLE**

- 7.1 It is not possible to confirm the total budget resources expected to be available to the Council for 2016/17 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 63/16).
- 7.2 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**, approval of the budget issues as set out in columns C and D and set out in detail in the Provisional Revenue Budget & Budget Savings Proposal Volume (report 61/16 refers) and assuming a standstill Council Tax level, a shortfall of income over expenditure of around £8.849 million will exist in 2016/17.
- 7.3 A three year package of budget savings covering 2014/15 – 2016/17 was approved in setting the 2014/15 revenue budget (Report 84/14 refers). As part of the budget preparation process for 2016/17, Directorates were asked to review their approved budget savings proposals for 2016/17 to ensure that the savings remain deliverable. Where any of these savings were no longer considered deliverable, or where the phasing needed to be revised, this was to be highlighted on budget submissions along with the proposed alternative saving(s). As a result, revised budget savings/efficiencies have been identified by services for 2016/17 totalling £6.241 million, a shortfall of £0.548 million on the savings approved in report 60/15. A further £0.062 million has been rephased into 2017/18.
- 7.4 As part of the 2016/17 budget strategy, Directorates were also asked to submit additional savings of 1% from their revenue budget. In this regard, additional savings totalling £2.081 million have been identified in 2016/17
- 7.5 In addition, as part of the Council's Transforming Angus programme, a number of corporate reviews are currently in progress, which will deliver a package of savings over the period 2016/17 – 2018/19. A total of £1.777 million is projected to be delivered in 2016/17, and this has been included in the Summary Statement of Net Expenditure at Appendix 1. A summary of the Transforming Angus savings for 2016/17 (Tier 1) is provided at Appendix 2.

Based on the assumptions detailed above, this leaves a working fund balance available of £1.250 million based on the assumptions outlined above.

- 7.6 Members are advised that this funding availability is indicative only and will be affected by decisions on the contributions to or from General Fund Balances and Special Funds that are to be agreed through the Council Tax Setting process.

## **8. BUDGET SAVINGS STRATEGY & DIRECTORATE SAVINGS PROPOSALS**

- 8.1 In recent years the Council has moved away from a single year approach to budget savings thus providing more flexibility to services. In view of this, as mentioned above, a 3 year package of savings was approved in report 84/14 covering the period 2014/15 – 2016/17 so as to give Members a framework for setting a balanced budget. This package of savings was revised in setting the 2015/16 revenue budget, per report 60/15.
- 8.2 Directorates were therefore asked only to review their approved budget savings proposals for 2016/17 to ensure that the savings remain deliverable. In total for the 3 year period 2014/15 – 2016/17 £18.470 million of budget saving were approved in report 60/15. Table 2 below summarises the revised total savings submitted for approval over the three year period. The additional 1% savings submitted by Directorates for 2016/17, as well as the savings anticipated from Transforming Angus Tier 1 Reviews in 2016/17, are also included to show the full package of savings proposed for 2016/17 :-

Table 2 – Total Budget Savings Proposals

	<b>Savings 2014/15 £'000</b>	<b>Savings 2015/16 £'000</b>	<b>Savings 2016/17 £'000</b>	<b>Total 3 Year Savings £'000</b>
Savings approved in Report 60/15, revised savings as per Report 61/16	6,095	5,586	<b>6,241</b>	17,922
Additional 1% Directorate Savings	0	0	<b>2,081</b>	2,081
Transforming Angus Tier 1 Reviews	0	0	<b>1,777</b>	1,777
<b>Total</b>	<b>6,095</b>	<b>5,586</b>	<b>10,099</b>	<b>21,780</b>

- 8.3 The revised savings for 2016/17 are sufficient to allow a balanced budget to be achieved. It should be noted that all of the budget savings contained in report 61/16 are expected to be required if Angus Council is to deliver a revenue budget in 2016/17 within the resources expected to be available.
- 8.4 Report 61/16 lists **all** savings for 2016/17 which were approved in report 60/15. Those savings which are on target and require no amendment are shown in the first table for each Directorate. Where applicable, savings which are no longer considered deliverable, or which require to be amended/rephased, are shown in the second table. Revised savings, to replace those no longer considered deliverable, or which are to be amended/rephased, are detailed in a separate table below those considered no longer deliverable. Additional 1% savings for each Directorate are also detailed in a separate table. Members are being asked to approve the revised savings for 2016/17 on the basis that those savings which are unchanged have already been approved, as well as the additional 1% savings. Savings which remain unchanged from report 60/15 are shown for noting only. Providing all of the savings (original) and those that have been revised in a single budget report ensures there is a new single reference point with regard to the Council's savings plans for 2016/17.
- 8.5 The savings proposals submitted by the People Directorate (Adult Services) include a review of the Tenancy Support Service with a view towards moving to a peripatetic service or a transfer to a social enterprise model with effect from 1 July 2016. Depending on the outcome of the review there is a risk that severance costs may be incurred. If severance costs do ultimately have to be incurred it is intended that these be funded through existing Council budgets (including the Provision for Additional Burdens) and if necessary the General Fund contingency. Confirmation of the costs and funding for severance, if this proves to be required, would be covered in a further report which will come to Committee/Council on the outcomes from the further work to look at the social enterprise option.

## **9 OTHER ISSUES PERTINENT TO THE 2016/17 REVENUE BUDGET**

- 9.1 The following issues are also relevant to the consideration of the 2016/17 Provisional Revenue Budget submissions and budget savings proposals.
- 9.2 New Burdens and Initiatives to be funded from the Financial Settlement  
The Local Government Finance Settlement (paragraph 2.1 refers), includes funding to continue implementation of the Children and Young People Bill, which the Council will need to address, along with a number of other pressures including general inflation and increases in charges from third party providers of services, from within its revenue grant allocation. The adjusted level of grant support has reduced significantly for the Council, and subject to delivering the Scottish Government commitments, the level of budget pressures facing the Council exceed the grant support available.
- 9.3 Investment Bids (Unavoidable Cost/Demand Pressures)  
Through the budget process a number of areas where investment is required in 2016/17 were identified. These were discussed and reviewed in detail by the PBSG and at the all-Council Priority Based Budgeting Member / Officer Group (MOG) meeting with support from Corporate Improvement & Finance and officers from services across the Council.
- 9.4 The discussions with regard to these investment bids highlighted that these could be split into two distinct categories:

- Those that represent an ongoing need for 2016/17 and future years;
- Those that may represent a one-off requirement for 2016/17 only.

9.5 Overall a total of £3.850 million is recommended for funding of which £3.765 million is recommended to be funded on an ongoing basis and £0.085 million on a one-off basis. Both categories of investment have been added into directorate revenue budgets where they are unavoidable. However, those of a one-off nature will be removed from directorate revenue budgets during the 2017/18 budget process. A description of these budget pressures for each Directorate can be found in the Provisional Revenue Budget & Savings Proposals Volume (Report 61/16) under the Investment Bids section.

9.6 The recommended additions to the directorate provisional revenue budgets in respect of these investments are set out in columns C and D of the Statement of Net Expenditure at **Appendix 1**.

9.7 In addition it is proposed to make provision for some additional cost pressures or specific initiatives as detailed in the Statement of Net Expenditure at **Appendix 1**.

- Pay Award - £2.195 million – to cover the costs of a pay increase for all staff including teachers plus the impact of applying the Living Wage in the Council and Tayside Contracts. The 2016/17 pay award has been agreed at 1% for all employees.
- End of Contracted Out Pensions - £2.800 million – to cover the cost of increased Employer's National Insurance from 2016/17 onwards. No additional government funding has been provided in this regard.
- Other Services – provision for additional burdens - £0.741 million - this will be used if required to meet any budget issues arising during 2016/17 which cannot be managed via Directorate budgets.
- Energy Costs - £0.481 million saving – in light of significant underspends in recent years and reduced energy prices indicated for 2016/17, a saving is projected to be available in 2016/17. This will be deducted from energy budgets within Directorates in preparing the Final Budget Volume for 2016/17.

#### 9.8 Common Good Funds

Through the budget process, Strategic Directors identified a number of projects for consideration for funding from the Common Good Funds. These were discussed and reviewed in detail by each Common Good Fund's local members and in light of these discussions the projects outlined in **Appendix 3** were agreed for funding at this time. These are reflected in the Common Good Funds budgets contained in the Provisional Revenue Budget & Savings Proposals Volume (Report 61/16).

#### 9.9 Review of Charges

As part of the budget process a number of directorates have identified proposals for reviewing the charges levied for the provision of certain Council services. These are the subject of separate reports to this meeting of the Council (reports 54/16, 55/16, 56/16, 57/16 & 58/16 refer). The financial impact of the proposed review of charges has been reflected in the provisional revenue budget figures shown in **Appendix 1**. The financial benefit of some of the review of charges proposals have also been put forward by directorates as a means of contributing to their budget savings.

#### 9.10 Capital Financing Costs (Loan Charges)

The separate Prudential Indicators report (Report 65/16) outlines that the provision for capital financing costs within the 2016/17 revenue budget is considered sufficient to meet the commitments as contained in the Provisional Capital Budgets Volume (Report 62/16). However it should be noted that any material amendment to the capital budget for 2016/17 would almost certainly necessitate amendment to the Prudential Indicators, and could conceivably require amendment of the capital financing costs provision. Any amendment to the capital financing costs provision would also have consequences in respect of the overall revenue budget for 2016/17.

#### 9.11 Surplus Local Tax Income

A budgeted allowance of £0.050 million has been included in the budget summary at **Appendix 1** in respect of Surplus Local Tax Income. Delivery of this income will be dependant upon continued good performance on Council Tax collection by Finance officers and is not necessarily guaranteed for future years.

#### 9.12 Joint Board / Arrangement Budgets

The 2016/17 revenue budget for the Tayside Valuation Joint Board was agreed at the Board meeting in January 2016. Angus Council's share of the Joint Board's net expenditure is £0.750 million, excluding Electoral Registration Services which are budgeted for separately within Other Services.

9.13 The 2016/17 revenue budget for the Tayside Contracts Joint Arrangement has yet to be determined. However, from current information available from Tayside Contracts, the Angus share of the total estimated surplus is £0.218 million.

9.14 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**.

#### 9.15 Contributions to/from General Fund Balances and Special Funds

In line with previous years, consideration will need to be given to the level of possible contributions to or from the Council's General Fund Balances and 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. The actual total of contributions to/from General Fund Balances and Special Funds, and how this will be disbursed among the various Funds, is considered in the separate Report 63/16.

### 10 KEY ASSUMPTIONS & RISKS

10.1 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.

#### 10.2 Management of Budget Risks in General

The management of budget risk is integral to the Council's approach to budget setting and critically no Director 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 Investment Requirements

The Council's budget process ensures that all significant budget issues that require investment can be raised by Directors 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 investment proposals 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 process of identification of savings is subject to the same rigorous review and assessment process as is applied to investment bids so that members and senior officers can be confident that any savings being proposed are capable of implementation in the form and within the timescales being assumed. The Council has a long history of taking difficult but pragmatic decisions on budget savings and of such savings being achieved.

- 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 investment bid 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. Existing Council policy is to set aside around 1.6% of the net budget as a contingency in General Fund Balances. This currently equates to circa £4.0m. In addition, significant replenishment of the Council's Renewal & Repair Fund each year ensures that further resources are available on an emergency basis during the year if insufficient resources are available in mainstream revenue and capital budgets. Within the revenue budget itself the Council holds a contingency sum - the provision for additional burdens.

- 10.3 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.
- 10.4 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.
- 10.5 Specific Risks in 2016/17 Revenue Budget  
It is considered that the main risks associated with investment bids and budget savings for 2016/17 have been addressed within the proposals set out elsewhere in this report. Sufficient provision will be made for unavoidable budget issues and the proposed budget savings are considered to be achievable by the Directors who are required to implement them. Delivery of savings in Adult Services will be the responsibility of the Angus IJB during 2016/17. Extensive dialogue with the IJB Chief Officer and Chief Financial Officer has therefore taken place to reduce the risk of these savings not being achieved.
- 10.6 General inflation has been recognised where appropriate through the investment bids. Significant sums of budget carry forwards from 2015/16 have also been agreed (report 42/16 refers) which will assist Directorates to manage their budgets in 2016/17 and if required respond to changing circumstances.
- 10.7 Provision within the 2016/17 budget for other risk items and uncertainties has also been allowed for (paragraph 8.7 refers).
- 10.8 In summary as author of this report I am content that based on the latest information available and my discussions with the Chief Executive and all other Strategic Directors that the proposed 2016/17 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 and special funds 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 2016/17.
- 10.9 Members will however appreciate that further risk lies beyond the 2016/17 budget in relation to further funding cuts in real terms which seem likely to apply. Further comment on this is given at Section 11 of this report but the key issue is to set a budget for 2016/17 that is realistic and which can provide flexibility for future years.

## **11 PROSPECTS FOR 2017/18 & BEYOND**

- 11.1 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 2016/17 budget setting process:-
- The Council needs to set a 2016/17 budget which recognises that significant financial difficulties will continue beyond 2016/17, i.e. there is a need to be responsible, prudent and avoid taking short term decisions. The budget proposals for 2016/17 have accordingly sought to balance the need for investment in services now with the need to provide financial flexibility into the future.
  - Council Directorates 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 Directors have been reminded of this as part of finalising the 2016/17 budget strategy.
  - The Council has already begun to plan for 2017/18 and later years in terms of budget savings, but further work in this regard is required. A detailed review of all budgets is essential in order to minimise the impact of required savings and to ensure the maximum efficiency possible. A number of areas of further work have been identified which officers will progress during 2016/17 with a view to amending service delivery to ensure sustainability of services moving forward and/or to deliver budget savings in future years.
- 11.2 During the course of preparing the 2016/17 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 services. There is likely to be a requirement for increased investment in these services but the exact cost burden cannot be confirmed at this stage.
- 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 deliver of these critical services.
- Integration Joint Board (IJB) – there are a number of risks within the budget provision for Older People and Adult Services, which is being devolved to Angus Integration Joint Board from 1 April 2016. The main risks are in respect of assumptions which have been made regarding the use of the Angus share of the additional £250 million Integration Funding made available by the Scottish Government for 2016/17. In addition, the 2016/17 budget package still requires to be formally approved by the IJB (which will not take place until after this report is finalised). There is therefore a risk that the IJB will not approve the proposed devolved budget and seek to reopen dialogue with the Council. Further detail is provided in Report 59/16, “Health and Social Care Integration – Devolved Budget to Angus Integration Joint Board 2016/17”.

11.3 An update of the Council’s Medium Term Financial Strategy (report 347/15) will be provided later this year and will pick up the impact of these issues.

## **12 REVENUE BUDGET DOCUMENTATION**

12.1 The revenue budget information required for the Special Meeting of Angus Council on 18 February 2016 is contained in this report and the under-noted report: -

### **Report 61/16 – 2016/17 Provisional Revenue Budget & Savings Proposals Volume (Red Cover)**

12.2 This Volume contains a summary of each Directorate’s budget submission for 2016/17 and a description of the proposed budget savings and investment bids as they affect each service area.

### 13 BACKGROUND – GENERAL FUND CAPITAL BUDGET 2016/17

- 13.1 Capital budget preparation guidance was issued by the Head of Corporate Improvement & Finance outlining the procedures to be followed in the preparation of the 2015/2020 Financial Plan and 2016/17 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.
- 13.2 Table 3, 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 3**

Policy & Budget Strategy Group	16 November 2015, 17 December 2015, 14 January 2016, 28 January 2016
Executive Management Team	8 December 2015

- 13.3 A programme of long-term funding strategy measures has been developed which is intended to maintain levels of capital expenditure into the future. Report 64/16 on the long-term affordability of the General Fund Financial Plan provides more detail of the measures which have been developed.

### 14 CAPITAL RESOURCES

#### 14.1 Background

The 2015/2020 Financial Plan, incorporating the 2016/17 capital budget, has been prepared under the self-regulating Prudential Code regime.

Members will be aware that 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 2015/2020 Financial Plan has been prepared in this context and further information relating to the Prudential Code is contained in Report 65/16.

#### 14.2 2016/17 Local Government Finance Settlement

Finance Circular 7/2015 (as issued on 16 December 2015 and subsequently amended in correspondence from the Scottish Government thereafter) provided updated details of funding allocations for 2015/16 and 2016/17. No definitive information is available for 2017/18 onwards, other than the notification of general capital grant re-profile from 2016/17 into the period 2017/18 to 2019/20, although the specific phasing of the re-profile is not yet known. Table 4, below, details Angus Council's capital support for each year:

**Table 4 – Angus Council Capital Support**

Funding Source	2015/16 £m	2016/17 £m	2016/17 Re-profile £m
General Capital Grant (including Urban Broadband, Flooding, Free School Meals and Early Years & Childcare)	23.845	10.135	2.426
Specific Capital Grant - Cycling, Walking and Safer Streets	0.174	0.128	0.033
Total Support for Capital	24.019	10.263	2.459

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'.

## **15 OUTCOME OF THE LONG TERM AFFORDABILITY REVIEW**

- 15.1 A thorough exercise has been carried out by Finance officers to assess the long-term affordability of the 2015/2020 Financial Plan. Looking at the position over 25 years, from 2016/17 to 2040/41, as well as an update on the 2015/16 position, a detailed comparison of loan charges grant, loan charges budget and the loan charges costs arising from both past and projected capital expenditure has been undertaken.
- 15.2 It has of course been necessary to make a number of assumptions in order to project forward future levels of: capital expenditure; loan charges grant; loan charges budget and loan charges costs. On the basis of these assumptions (as set out in report 64/16), the long term affordability exercise has determined that the projects contained within the 2015/2020 Financial Plan are both affordable and sustainable.
- 15.3 In addition to the assumptions noted above, members will note that existing projects have been reviewed / re-prioritised and additional resources provided for a small number of additional high priority capital projects, which are now included in the Provisional Capital Budget Volume (report 62/16):
- Brechin Business Park Extension (Chief Executive's – Economic Development)
  - Route Action Plan – Mill of Dun to Stracathro (Communities – Technical & Property Services)
  - Arbroath Academy Synthetic Pitch (Children & Learning – Schools & Learning)
  - Mental Health Accommodation (Adult Services – Integrated Joint Board)
  - Replacement of The Gables Residential Unit (Adult Services – Integrated Joint Board)
  - Agile Angus Programme (Resources – Transforming Angus).
- 15.4 The long term affordability also allows for a total contingency level of £7.516 million over the 5 years of the financial plan. This includes a provision of £1 million set aside in 2016/17 to fund any capital repairs etc. brought about by the winter 2015/16 flooding events across Angus.

## **16 2015/2020 FINANCIAL PLAN (INCORPORATING THE 2016/17 CAPITAL BUDGET)**

- 16.1 The 2015/2020 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 2016 and that which is not anticipated to be legally committed by 31 March 2016.
- 16.2 Funding elements such as specific capital grants and CFCR are reflected within the financial plan itself, netted off against the gross cost of particular projects. Anticipated capital receipts from the sale of assets are not shown in the financial plan however (unless committee approval has been given to ring-fence a receipt for a particular project), as the decisions regarding the utilisation of such receipts are taken as part of the final accounts process. Similarly, general capital grant is not reflected within the financial plan and is used to reduce borrowing at the year end. The exception to this is where it is utilised against non-enhancing expenditure (i.e. expenditure classified as capital but which does not enhance an Angus Council asset) – in such instances general capital grant is shown netted off against the gross cost of the relevant project within the financial plan.
- 16.3 Appendix 4 provides a summary of the provisional directorate capital budgets for 2016/17 as contained in the Provisional Capital Budget Volume and shows an estimated net capital expenditure of £28.560 million. Appendix 4 also shows that after the inclusion of a slippage allowance, 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 of £15.614 million in 2016/17.

## 17 CAPITAL BUDGET DOCUMENTATION

17.1 The capital budget information required for the Special Budget Meeting on 18 February 2016 is contained in both this report and report 62/16 – Provisional Capital Budget Volume (cream cover). The budget volume contains details of each directorate's budget submission for 2016/17 and their overall financial plan submission for the period 2015/2020.

**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 7/2015 (version 2) issued on 16 December 2015 by the Scottish Government;

Letter of 27 January 2016 from the Cabinet Secretary for Finance, Employment & Sustainable Growth.

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