

ANGUS COUNCIL

ANGUS COUNCIL - 16 FEBRUARY 2017

ANGUS ALIVE BUDGET SETTLEMENT 2017/18

**REPORT BY HEAD OF CORPORATE IMPROVEMENT & FINANCE & HEAD OF
REGULATORY AND PROTECTIVE SERVICES**

ABSTRACT

This report summarises the proposed 2017/18 budget settlement between Angus Council and Angus Alive including a review of Angus Alive charges.

1. RECOMMENDATION

It is recommended that the contents of this report are noted and approved as part of Angus Council's 2017/18 revenue and capital budget setting process including the review of charges proposals set out in Appendix B.

2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT / CORPORATE PLAN

This report contributes as a whole to the local outcome(s) contained within the Angus Community Plan and Single Outcome Agreement 2013-2016. The budget including savings and investment proposals has been developed on a basis which seeks to reflect the Council's priorities and those outcomes the Council and Angus Alive as a partner are trying to deliver.

3. INTRODUCTION

As Members will be aware a number of leisure and cultural services as well as responsibility for ACCESS Offices transferred from the Council to the Angus Alive Charitable Trust on 1 December 2016. Angus Alive is wholly owned by Angus Council but has an independent Board who manage the company's affairs. The Angus Alive Board has 5 Independent Directors and 4 Angus Councillor Directors.

Angus Alive is funded in part by income generated from fees and charges but also receives a Management Fee from the Council to part fund the services provided. The Management Fee payment requires Angus Alive to deliver services on behalf of the Council which are covered by a Service Level Agreement. The Head of Regulatory and Protective Services within the Communities Directorate is responsible for managing the Council's day to day relationship with Angus Alive and for ensuring the Management Fee element of the budget is appropriately managed. This budget is included in the Council's budget as Services to Communities (S2C) in the Communities Directorate.

Preparing a budget for Angus Alive therefore requires a partnership approach because decisions have to be made by the Council in relation to the Management Fee and services it wants in return and by the Angus Alive Board on how it wishes to deliver the required services and pursue its own priorities for the Company. Council and Angus Alive officers have been working on a budget settlement for 2017/18 for a number of months and this report sets out the proposals in this regard. It is intended that the broad content of this report will also be considered by the Angus Alive Board at its next meeting in March 2017.

4. 2017/18 BUDGET PROPOSALS

Context

This Report sets out a budget package for Angus Alive and Angus Council for financial year 2017/18. The package is framed in the context of the severe financial challenges facing the

Council's overall budget, the need for Angus Alive to build up reserves to meet OSCR expectations and in light of experience on costs and incomes in the first year of operation.

2016/17 Approved Budget and Projected Outturn

In assessing the budget needs for 2017/18 it is appropriate to consider the starting point (the budget and projected outturn in 2016/17). Angus Alive's approved revenue budget was specifically set to deliver a balanced position in 2016/17 and included a management fee from Angus Council of £4.508m:

	<u>£m</u>
Gross Expenditure	9.535
Management Fee	4.508
All Other Income	<u>5.027</u>
Gross Income	9.535
Net Surplus / (Deficit)	<u>0.000</u>

The delivery of a balanced budget within the £4.508m management fee shown above was achieved after first delivering £467,000 savings (£421,000 on the Angus Alive side and £46,000 on the Services to Communities (S2C – client side) as well as absorbing removal of a previous £46,000 budget saving relating to ACCESS Offices that had previously been uplifted on a one-off basis.

Whilst further uplifts to the management fee have been undertaken during 2016/17 (e.g. 100% and grant carry forwards from 2015/16 as well as additional support from S2C projected 2016/17 underspend), these elements were only provided on a one-off basis.

The latest outturn position for Angus Alive (which was presented to the board meeting on 12 January 2017) is based on actual income received / expenditure incurred up to 31 October 2016 and projects a year end surplus of circa £434,000.

The achievement of a surplus position is vital to Angus Alive at this early stage in its operation for 2 main reasons:

- to build a level of reserves as required by Office of the Scottish Charity Regulator (OSCR); and
- to allow contributions to be made into Angus Council's Recreation Renewal & Repair Fund for investment in the assets utilised by Angus Alive (e.g. gym equipment) to enable the customer base to be maintained.

OSCR Guidance on reserves suggests providing for 3 months operating costs which for Angus Alive could amount to some £1.9m. Angus Council finance officers regard such a level of reserve as being unnecessarily high in light of the Trust's funding relationship with Angus Council and the reserves the Council holds. Discussion with OSCR in this regard will take place during 2017 to help determine an appropriate Reserves Policy for Angus Alive.

Determining the 2017/18 Management Fee – Starting Point

The management fee is essentially subject to discussion and negotiation between the Council and Angus Alive Board. The calculation of the 2017/18 management fee uses the approved 2016/17 fee of £4.508m as a base. A number of adjustments for one-off funding, etc. are however required in order to establish the starting position for 2017/18 as follows:

Table 1

	<u>£m</u>	<u>Commentary</u>
2016/17 management fee	4.508	
Less:		
Brechin Campus additional staffing	(0.112)	Funded via carry forward (Note 1)
ACCESS TUPE staffing impact	(0.042)	Funded via carry forward (Note 1)
Allowance for recurring costs	(0.084)	Funded via additional burdens (Note 1)
ACCESS cash collection staffing impact	(0.039)	Funded via additional burdens (Note 1)

Add:

2017/18 allowable staff cost uplifts	<u>0.022</u>	Increments - structure as at 1/12/15 (Note 2)
Initial 2017/18 management fee	<u>4.253</u>	

Note 1 These temporary funding solutions were for 2016/17 only and were always going to require more permanent solutions to be found for 2017/18 onwards.

Note 2 this uplift covers increments only at this time – allocations in respect of projected / actual pay award will be finalised once the pay settlement is agreed nationally through COSLA

The key elements to forming the budget package is to agree a position on:-

- Savings which can or need to be made in the existing budget
- Investment bid/budget pressures which need to be recognised
- Potential additional income from review of charges

The remainder of this Report looks at these key areas in turn.

Savings Achieved by Angus Council Through Move to Angus Alive

The Final Business Case for the move to Angus Alive estimated savings of £897,000 and it was this amount that was removed from Angus Council's overall 2016/17 revenue budget (this being the first full year of operation of Angus Alive). A number of the assumptions made in preparing the 2016/17 budget need to be reviewed in light of experience as follows:-

Table 2

	<u>2016/17 Budgeted Saving £m</u>	<u>Updated Anticipated Saving £m</u>	<u>Additional Saving £m</u>	<u>Commentary</u>
Non-Domestic Rates (saving in S2C budget)	0.629	0.773	0.144	This additional saving has been used to address a structural funding shortfall in relation to property maintenance (£44,000) and as part of the S2C savings proposals for 2017/18 (£70,000). The balance of £30,000 is proposed to be used to support a funding shortfall in library/information adviser hours (see investment bids in Appendix A)
Irrecoverable VAT (saving in Angus Alive budget)	(0.376)	(0.150)	0.226	This is based on the first 2 quarters' VAT returns for 2016/17 so an element of risk is attached to this until a full financial year is experienced. It is proposed that all of this additional saving is taken into account in calculating the 2017/18 management fee
Brechin Campus Rates (saving in Children & Learning budget)	0.000	0.086	0.086	Additional savings arising from Joint Campus arrangement and occupation by Angus Alive. This saving will be reassessed once the full year running costs for the new Campus in 2016/17 are known but doesn't affect the Angus Alive management fee.

Based on the above it is proposed to apply a saving of £226,000 in the 2017/18 management fee from the Council to Angus Alive.

Investment Bids/Budget Pressures Affecting Angus Alive Budget/Management Fee

As part of the Council's budget process all services are given an opportunity to raise issues likely to affect their budget needs in 2017/18. Investment bids totalling £625k were submitted by Services to Communities (including a number on behalf of Angus Alive) as part of this process. All Investment bids were reviewed by the Council's Executive Management Team and the Policy & Budget Strategy Group (PBSG). The Council's financial position means that across all Services

(including those provided by Angus Alive) only those investment bids which are wholly unavoidable can be afforded for 2017/18. This means that some of the budget issues raised by Angus Alive are not affordable and alternative solutions to these issues will have to be found. Appendix A attached provides further information on the Angus Alive investment bids and the proposed treatment of these for budget purposes and the associated implications of this. In summary it is proposed to increase the base management fee for 2017/18 by £84,000 on a permanent basis and £117,000 on a one-off basis for 2017/18 in recognition of the specific issues raised. The budget retained by Services to Communities will also be increased to reflect the additional running costs for the Brechin and Forfar Community Campuses once the actual costs for Brechin in the first year of operation have been confirmed.

Members should note that by being unable to afford to fund all of the issues raised in Appendix A by Services to Communities/Angus Alive it will be necessary for the company to find other solutions and implement service changes in order to live within the funding being made available. A summary of the service implications is given in Appendix A. Subject to approval of the Council's budget the Service Level Agreement with Angus Alive will be updated to reflect the revised funding and service provision position.

2017/18 Review of Charges

Appendix B attached provides details of the proposed review of charges by Angus Alive for 2017/18 based on a report submitted to the Angus Alive Board in January. This is the result of many months of work reviewing income levels, customer trends and charging options. The SLA between the Council and Angus Alive requires the Council to approve these charging proposals.

In budget terms and because it is difficult to predict the impact of the changes to the various charges it is proposed to apply a reduction in the 2017/18 management fee of £88,000 in recognition of the potential additional income which will accrue to Angus Alive as a consequence of these charges being reviewed. This means that any additional income achieved beyond this sum would be available for use at the discretion of the Angus Alive Board and so retains an incentive for the company to grow its income base.

2017/18 Proposed Management Fee

Based on the proposals in this report the following management fee would be payable from the Council to Angus Alive for financial year 2017/18:-

Table 3

	<u>£m</u>	<u>Commentary</u>
Starting Position (base fee) Per Table 1	4.253	
Less: Additional Savings – Irrecoverable VAT	(0.226)	
Less: Additional Income – Review of Charges	(0.088)	
Add: Investment Bid S2C-001 – Adviser Hours	0.117	Provided on a one-off basis for 2017/18 only
Add: Investment Bid S2C-004 – Recurring Costs	0.084	
Proposed 2017/18 Management Fee	4.140	Excluding pay award

Once the local government pay award for 2017/18 is determined the management fee would be uplifted for the proportionate share which relates to Angus Alive staff.

Given the need for Angus Alive to put in place reserves and invest in new equipment it is proposed that the surplus in 2016/17 the Company is currently projecting (£434,000) would be retained in full by Angus Alive.

Services to Communities Budget Position

The Services to Communities budget will be adjusted to reflect the above proposed management fee. This budget will also be uplifted for Investment Bid S2C-003 in Appendix A (£152,000). It is expected that this can be achieved through budget virement from other parts of the Council's budget which have been overprovided for additional costs, mainly in relation to non-domestic rates upon the opening of the Brechin Community Campus.

The budget proposals for Angus Alive and Services to Communities are considered to be fair and reasonable but will still be challenging to deliver and involve an element of budget risk. Officers do however believe that the proposals represent a reasonable and achievable position given the Council's wider financial challenges.

5. FINANCIAL IMPLICATIONS

There are no immediate financial implications arising from the recommendations of this report. The proposals outlined in this report are subject of approval through other reports on the Agenda of this meeting and have been reflected in the net expenditure summary and Council Tax calculation.

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NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.