AGENDA ITEM NO 4(i)

REPORT 58/17

ANGUS COUNCIL

SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 16 FEBRUARY 2017

PROVISIONAL REVENUE & CAPITAL BUDGETS 2017/18 – 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 2017/18 has been provisionally set at £198.014 million, as set out in section 3;

ii) Note the provisional revenue budget submission(s) as contained in the 2017/18 Provisional Revenue Budget & Savings Proposals Volume (Report 59/17) 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 59/17) and shown in column C of the Summary Statement of Net Expenditure at **Appendix 1** that have been added to directorate budgets;

iv) Approve the budget savings proposals for 2017/18 reflected in the 2017/18 Provisional Revenue Budget & Savings Proposals Volume (Report 59/17), including the Corporate savings proposals detailed in paragraph 7.7 of this report, which 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 2017/18;

v) Approve the provisional capital budget submission(s) as contained in the 2017/18 Provisional Capital Budget Volume (report 60/17);

vi) Note the commentary as set out in **Appendix 3** on the extent to which the budget proposals deliver on the Priority Based Budgeting principles agreed by the Council; and

vii) Note the prospects for public spending in 2018/19 & 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 2017/18

3.1 Angus Council's Revenue Grant Support allocation for 2017/18 has been provisionally set at £193.427 million as detailed in Finance Circular (FC) 9/2016, subsequently amended to £193.459 million in correspondence from the Scottish Government on 17 January 2017. A further £2.845 million additional revenue grant funding was announced on 2 February 2017 by the Cabinet Secretary for Finance and the Constitution, bringing the overall total to £196.304 million. This is a gross decrease in headline revenue grant support of £1.924 million (1.0%) compared with the level of grant support for 2016/17 (£198.228 million). However, after adjusting for funding which has not yet been distributed for 2017/18, estimated at £1.710 million in total), there is a projected net decrease of £0.214m (0.1%) compared with grant support received in 2016/17.

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

Table 1 – Revenue Grant Support

	£m	£m
2016/17 Budgeted Revenue Grant Support*		**198.228**
Adjustments per FC 9/2016:		
Movements in Grant Funding:		
Schools & Learning		
Pre-school expansion	£0.004	
Teachers' Pensions	£0.004	
Teachers' Numbers	(£0.012)	
Teachers' Pay	(£0.005)	
Free School Lunches Extension	£0.020	
Free School Meals	(£0.067)	(0.056)
Children & Young People		
Early Learning & Childcare	£0.195	
Early Learning & Childcare Expansion	£0.082	
Continuing Care	£0.038	
Throughcare & Aftercare	£0.026	
Changed Eligibility for Aftercare	£0.015	
GIRFEC	(£0.218)	
Kinship Care	£0.037	0.175
Regulatory & Protective Services		
Tobacco & E-Cigarette Control		0.040
Other Services		
Scottish Welfare Fund		0.072
Adjustment to FC 9/2016 per SG letter 17/01/17		0.032
General Reduction		(5.032)
Additional Funding announced 2 February 2017		2.845
Total Adjustments		**(1.924)**
Sub-total per Finance Circular 9/2016 (revised)		**196.304**
Add Funding yet to be distributed		1.710
Total Estimated Revenue Grant Support 2017/18*		**198.014**

*Excludes Angus Council share of Angus Health & Social Care IJB funding, now netted off Children & Learning: Adult Services budget (£2.463m)

It is highlighted that the revised grant allocation of £196.304 million includes £2.077 million for funding in relation to attainment in schools. This funding has specific conditions attached to it and therefore requires to be ring-fenced within the Children & Learning Directorate budget as a direct allocation to individual schools. The grant allocation also includes £1.648 million of funding in relation to Criminal Justice services, which is not additional funding but merely replaces the current mechanism of funding already included in the 2016/17 base budget.

Taking these two adjustments into account reduces the grant available to the Council to use at its discretion by £3.725 million resulting in a revised net decrease, on a like for like basis, of £5.649 million (2.9%).

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 15 December 2016 from the Cabinet Secretary for Finance and the Constitution. The grant and conditions attached to it have been confirmed as an all-inclusive package which must be accepted in full to avoid grant sanctions being applied.

3.3 The main commitments that the Council is expected to deliver as part of the 2017/18 Settlement being offered are:

- limit any Council Tax increase in 2017/18 to no more than 3%;
- 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 2017 School Census;
- of the £107 million additional funding to Integration authorities, £100 million is to be used to meet the full year costs of the joint aspiration to deliver the Living Wage for social care workers, sleepovers and sustainability. The remaining £7 million is to be used to remove social care charges for those in receipt of war pensions and pre-implementation work in respect of new carers legislation pressures;
- to limit any reduction in allocations to Integration Authorities in 2017/18 to no more than their share of £80 million below the level of budget agreed with their Integration Authority for 2016/17 (as adjusted where agreed for any one-off items of expenditure which should not feature in the baseline).

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 for 2017/18 won't be finalised until report 61/17 is considered by the Council and the Local Government Finance (Scotland) Order 2017 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 At its meeting on 8 September 2016 (report 330/16 refers), the Council agreed to retain the Policy Based Budgeting approach for the 2017/18 budget process that was introduced for the 2016/17 budget process (Report 348/15 refers). It is considered that the budget package for 2017/18 presented in the Provisional Revenue Budget & Budget Savings Proposal Volume (report 59/17) delivers much of the principles which elected members 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 16 February 2017 is attached as **Appendix 3**.

5. FORMULATION OF BASE BUDGETS

5.1 Directorate base budgets have been prepared on an incremental basis using the 2016/17 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 2017/18. Base budgets have been reviewed for accuracy and adequacy through a technical validation process. The bulk of allowable budget growth in 2017/18 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 2017/18 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 2017/18 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 61/17).

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 column C and set out in detail in the Provisional Revenue Budget & Budget Savings Proposal Volume (report 59/17 refers) and assuming a standstill Council Tax level, a shortfall of income over expenditure of around £10.646 million will exist in 2016/17.

7.3 As part of the 2017/18 budget strategy, Directorates were asked to submit a package of savings proposals in order to help bridge the projected funding gap, in addition to savings to be made through Transforming Angus programme. In this regard, savings totalling £1.855 million have been identified by Directorates in 2017/18. Details of these savings are shown in the Provisional Revenue Budget & Budget Savings Proposal Volume (report 59/17).

7.5 In addition, as part of the Council's Transforming Angus programme, a total of £1.301 million is projected to be delivered in 2017/18, and this has been included in the Summary Statement of Net Expenditure at **Appendix 1**.

7.6 The impact of changes in Council Tax legislation, which is covered in detail in report 61/17, will result in additional Council Tax income to the Council in 2017/18 of £1.719 million. Councils are permitted to use this income at their discretion, and this will therefore assist in bridging the funding gap identified.

7.7 After accounting for the savings and additional Council Tax income outlined above, a funding gap of £5.771 million remains. After detailed consideration of the Council's overall budget and reserves position, a number of corporate proposals have been identified in order to deliver a balanced budget for 2017/18, as detailed below:

- removal of core budget provision of £0.250 million for Transforming Angus (TA). The remaining TA programme will be funded from one-off balances in reserves;
- reduction in the corporate energy budget provision of £0.317million;
- reduction in loan charges budget of £1.000 million, which will require future capital plans to be curtailed unless extra capital grant is received in future years to offset this;
- review of corporate approach to insurance, resulting in a saving to the General Fund of £0.222 million;
- use of £2.102 million uncommitted reserves currently held within General Fund Balances, on a one-off basis for 2017/18;
- release of £0.180 million from the Print Unit Renewal & Repair Fund, as this is no longer required (one-off funding for 2017/18 only);
- increase in Council Tax Base in light of recent trends and new housing, resulting in estimated additional income, on an ongoing basis, of £0.225 million.

7.8 Taking the above corporate proposals (totalling £4.296 million, of which £2.282 million is one-off measures for 2017/18 only) into consideration leaves a funding gap remaining of £1.475 million.

7.9 In light of the ongoing reductions in grant funding from the Scottish Government, and in order to avoid further cuts in essential services, the option of implementing a 3% increase in Council Tax for 2017/18, as permitted by the Scottish Government in their Finance Settlement offer, is considered unavoidable in order to limit the impact on services to the public. This would provide the Council with increased Council Tax income estimated at £1.475 million, therefore allowing the Council to set a balanced budget for 2017/18.

The proposed 3% increase in Council Tax requires the approval of the separate Council Tax Setting Report (Report 61/17), which provides more detail in this regard.

8 OTHER ISSUES PERTINENT TO THE 2017/18 REVENUE BUDGET

8.1 The following issues are also relevant to the consideration of the 2017/18 Provisional Revenue Budget submissions and budget savings proposals.

8.2 <u>New Burdens and Initiatives to be funded from the Financial Settlement</u>
The Local Government Finance Settlement (paragraph 3.1 refers), includes funding to deliver Criminal Justice services which was previously funded from outwith the settlement, 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.

8.3 <u>Investment Bids (Unavoidable Cost/Demand Pressures)</u>
Through the budget process a number of areas where investment is required in 2017/18 were identified. These were discussed and reviewed in detail by the PBSG and at the all-Council Budget Strategy Briefing.

8.4 The discussions with regard to these investment bids highlighted that all of these bids represent an ongoing need for 2017/18 and future years.

8.5 Overall a total of £0.837 million is recommended for funding on an ongoing basis. All of these investment bids have been added into directorate revenue budgets. A description of these budget pressures for each Directorate can be found in the Provisional Revenue Budget & Savings Proposals Volume (Report 59/17) under the Investment Bids section.

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

8.7 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 - £2.650 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 2017/18 pay award has yet to be agreed, therefore this carries an element of risk.
- Other Services – provision for additional burdens - £1.380 million – this includes provision for the additional running costs of Forfar Community Campus, and the remaining provision will be used if required to meet any budget issues arising during 2017/18 which cannot be managed via Directorate budgets.

8.8 <u>Review of Charges</u>
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 49/17, 50/17, 52/17, 53/17, 54/17 & 55/17 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.

8.9 <u>Capital Financing Costs (Loan Charges)</u>
The separate Prudential Indicators report (Report 63/17) outlines that the provision for capital financing costs within the 2017/18 revenue budget is considered sufficient to meet the commitments as contained in the Provisional Capital Budgets Volume (Report 60/17). However it should be noted that any material amendment to the capital budget for 2017/18 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 2017/18.

8.10 Surplus Local Tax Income & MOD Council Tax Income
A budgeted allowance of £0.100 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. A further allowance of £0.100 million has been included in respect of Council Tax income on Ministry of Defence (MOD) properties.

8.11 Joint Board / Arrangement Budgets
The 2017/18 revenue budget for the Tayside Valuation Joint Board was agreed at the Board meeting in January 2017. Angus Council's budgeted share of the Joint Board's net expenditure is £0.736 million, excluding Electoral Registration Services which are budgeted for separately within Other Services.

8.12 The 2017/18 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 is £0.300 million.

8.13 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 KEY ASSUMPTIONS & RISKS

9.1 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.

9.2 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, 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. A one-off provision within reserves of £1.100 million will also be held for 2017/18 for potential severance costs and general budget risks.

9.3 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.

9.4 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.

9.5 Specific Risks in 2017/18 Revenue Budget
It is considered that the main risks associated with investment bids and budget savings for 2017/18 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 2017/18. 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.

9.6 General inflation has been recognised where appropriate through the investment bids. Significant sums of budget carry forwards from 2016/17 have also been proposed (report 48/17 refers) which will assist Directorates to manage their budgets in 2017/18 and if required respond to changing circumstances.

9.7 Provision within the 2017/18 budget for other risk items and uncertainties has also been allowed for (paragraph 8.7 refers).

9.8 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 2017/18 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 2017/18.

9.9 Members will however appreciate that further risk lies beyond the 2017/18 budget in relation to further funding cuts in real terms which seem likely to apply. Further comment on this is given at Section 10 of this report but the key issue is to set a budget for 2017/18 that is realistic and which can provide flexibility for future years.

10 PROSPECTS FOR 2018/19 & BEYOND

10.1 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 2017/18 budget setting process:-

- The Council needs to set a 2017/18 budget which recognises that significant financial difficulties will continue beyond 2017/18, i.e. there is a need to be responsible, prudent and avoid taking short term decisions. The budget proposals for 2017/18 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 2017/18 budget strategy.

- The Council has already begun to plan for 2018/19 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 or will arise from the project pipeline being developed with EY which officers will progress during 2017/18 with a view to amending service delivery to ensure sustainability of services moving forward and/or to deliver budget savings in future years.

10.2 During the course of preparing the 2017/18 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 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 with 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 was devolved to Angus Integration Joint Board on 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 £107 million Integration Funding made available by the Scottish Government for 2017/18. In addition, the 2017/18 budget package still requires to be formally approved by the IJB (which will not take place until after this report has been considered). 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 56/17, "Health and Social Care Integration – Devolved Budget to Angus Integration Joint Board 2017/18".

- Angus Alive – the proposed budget settlement between the Council and Angus Alive is covered in more detail in Report 57/17. The Angus Alive Board have still to formally consider this budget proposal including the review of charges contained therein so this remains an area of risk until agreement is reached with the Board.

10.3 An update of the Council's Medium Term Financial Strategy (report 371/16) will be provided later this year and will pick up the impact of these issues.

11 REVENUE BUDGET DOCUMENTATION

11.1 The revenue budget information required for the Special Meeting of Angus Council on 16 February 2017 is contained in this report and the under-noted report: -

Report 59/17 – 2017/18 Provisional Revenue Budget & Savings Proposals Volume

11.2 This Volume contains a summary of each Directorate's budget submission for 2017/18 and a description of the proposed budget savings and investment bids as they affect each service area.

12 BACKGROUND – GENERAL FUND CAPITAL BUDGET 2017/18

12.1 Capital budget preparation guidance was issued by the Head of Corporate Improvement & Finance outlining the procedures to be followed in the preparation of the 2016/2021 Financial Plan and 2017/18 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.

12.2 Table 2, 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 2

Policy & Budget Strategy Group	30 September 2016, 4 November 2016, 16 December 2016, 26 January 2017
Executive Management Team	17 November 2016, 10 January 2017

12.3 A programme of long-term funding strategy measures has been developed which is intended to maintain levels of capital expenditure into the future. Report 62/17 on the long-term affordability of the General Fund Financial Plan provides more detail of the measures which have been developed.

13 CAPITAL RESOURCES

13.1 Background

The 2016/2021 Financial Plan, incorporating the 2017/18 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 2016/2021 Financial Plan has been prepared in this context and further information relating to the Prudential Code is contained in Report 63/17.

13.2 2017/18 Local Government Finance Settlement

Finance Circular 9/2016 (as issued on 15 December 2015 and subsequently amended in correspondence from the Scottish Government thereafter) provided details of funding allocations for 2017/18. No definitive information is available for 2018/19 onwards, other than the notification of general capital grant re-profile from 2016/17 into the period 2018/19 to 2019/20, although the specific phasing of the re-profile is not yet known. Table 3, below, details Angus Council's capital support for each year:

Table 3

Funding Source	2017/18 £m	2016/17 Re-profile £m
General Capital Grant	12.259	2.426
Specific Capital Grant - Cycling, Walking and Safer Streets	0.160	0.033
Total Support for Capital	12.419	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'.

14 OUTCOME OF THE LONG TERM AFFORDABILITY REVIEW

14.1 A thorough exercise has been carried out by Finance officers to assess the long-term affordability of the 2016/2021 Financial Plan. Looking at the position over 25 years, from 2017/18 to 2041/42, as well as an update on the 2016/17 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.

14.2 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 62/17), the long term affordability exercise has determined that the projects contained within the 2016/2021 Financial Plan are both affordable and sustainable.

14.3 In addition to the assumptions noted above, members will note that existing projects have been reviewed and additional resources provided for a small number of additional high priority capital projects / programmes, which are now included in the Provisional Capital Budget Volume (report 60/17):

- £3.100 million for additional roads capitalised maintenance;
- £1.777 million for additional property capitalised maintenance;
- £272,000 for CCTV upgrading;
- £883,000 for industrial unit capitalised maintenance;
- £191,000 for additional vehicle replacement programme provision;
- £70,000 for WiFi renewal / upgrading; and
- £546,000 for Parks & Recreation capitalised maintenance.

The above list includes £4.540m of additional capital spending power provided through the Council's Special Funds strategy. Additional capital resources and special funds have been looked at together for 2017/18 so that the totality of those resources could be prioritised together. On this basis there are no additional resources for special fund contributions beyond what has now been added into the Provisional Capital Budget Volume (report 60/17).

14.4 The long term affordability also allows for a total contingency level of £5.490 million over the 5 years of the financial plan. This includes a provision of £721,000 for the additional general capital grant that was announced by the Scottish Government on 2 February 2017.

15 2016/2021 FINANCIAL PLAN (INCORPORATING THE 2017/18 CAPITAL BUDGET)

15.1 The 2016/2021 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 2017 and that which is not anticipated to be legally committed by 31 March 2017.

15.2 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.

15.3 **Appendix 3** provides a summary of the provisional directorate capital budgets for 2017/18 as contained in the Provisional Capital Budget Volume and shows an estimated net capital expenditure of £32.610 million. **Appendix 3** 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 of £14.247 million in 2017/18.

16 CAPITAL BUDGET DOCUMENTATION

16.1 The capital budget information required for the Special Budget Meeting on 16 February 2017 is contained in both this report and report 60/17 – Provisional Capital Budget Volume. The budget volume contains details of each directorate's budget submission for 2017/18 and their overall financial plan submission for the period 2016/2021.

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 9/2016 issued on 15 December 2016 by the Scottish Government;

Letter of 15 December 2016 from the Cabinet Secretary for Finance & the Constitution;

Letter of 2 February 2017 from the Cabinet Secretary for Finance & the Constitution.

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List of Appendices:
Appendix 1 - Statement of Net Expenditure
Appendix 2 - Provisional Capital Programme
Appendix 3 - Priority Based Budgeting – Delivery on Principles