

ANGUS COUNCIL

SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 27 FEBRUARY 2020

PROVISIONAL REVENUE & CAPITAL BUDGETS 2020/21 – BACKGROUND REPORT

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

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

1. RECOMMENDATIONS

1.1 It is recommended that the Council:-

- i) Note that the Angus Council Revenue Grant Support allocation for 2020/21 has been provisionally estimated at £218.807 million, as set out in Table 1 in section 3;
- ii) Note and approve the provisional revenue budget submission(s) as contained in the 2020/21 Provisional Revenue Budget Volume (Report 83/20) and summarised in Appendix 1 as the base budget;
- iii) Note and approve the budget issues (Unavoidable Cost/Demand Pressures), Service Development & Investment Bids as detailed in the Provisional Revenue Budget Volume (Report 83/20) and shown in columns C & D of the Summary Statement of Net Expenditure at Appendix 1 that have been added to service budgets;
- iv) Note and approve the Change Programme Savings as shown in column E of the Summary Statement of Net Expenditure at Appendix 1 that have been deducted from the Provisional Base Budget 2020/21.
- v) Note and approve the other adjustments shown in column F of the Summary Statement of Net Expenditure at Appendix 1 that have been added to service budgets;
- vi) Approve the provisional capital budget submission(s) as contained in the 2020/21 Provisional Capital Budget Volume (Report 84/20);
- vii) Note the prospects for public spending in 2021/22 & beyond, including the areas of strategic priority / budget risk that may require future investment, as set out in section 9 of this report;
- viii) Note the high level projected funding gap and savings position for 2021/22 and 2022/23 as set out in Table 5 of the Report; and
- ix) Approve the process and principles set out in paragraph 16.4 to dealing with any changes to the Council's revenue and capital grant allocations which may arise from the process of agreeing the Scottish Budget through the Scottish Parliament.

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

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

3. BACKGROUND - GENERAL FUND REVENUE BUDGET 2020/21

3.1 Angus Council's Distributable Revenue Grant Support allocation for 2020/21 has been provisionally set at £218.133 million as detailed in Finance Circular (FC) 1/2020 issued on 6 February 2020. The announcement of the grant at such a late stage of the Council's budget process has added significant time pressures to conclude the budget this year.

3.2 Members will be aware that the local government grant settlement forms part of the Scottish Government's overall budget for 2020/21 and has yet to be formally approved by Parliament. Due to the finance circular being issued late this year, the Parliamentary Stages 1-3 debates have not yet taken place. The Scottish Government will be negotiating with other parties to try to secure enough support for its budget and this may result in changes to the resources provided to local government, including Angus Council.

3.3 The Council's grant allocation is conditional upon the Council agreeing to deliver on some specific commitments (see below) as specified by the Scottish Government and as set out in the letter of 6 February 2020.

3.4 For 2020/21 the Scottish Government has stated it "will work in partnership with local government to implement the budget and the joint priorities in return for the full funding package which includes:-

- £201 million revenue and £121.1 million capital to support the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours by August 2020;
- In addition to the £160 million available in 2019-20, a further £100 million to be transferred from the health portfolio to Local Authorities in-year for investment in health and social care and mental health services that are delegated to Integration Authorities under the Public Bodies (Joint Working) (Scotland) Act 2014. This brings the total transferred from the health portfolio to support health and social care integration to £811 million in 2020-21. The additional £100 million for local government includes a contribution to continued delivery of the real Living Wage (£25 million), uprating of free personal and nursing care payments (£2.2 million), implementation of the Carers Act in line with the Financial Memorandum of the Carers Bill (£11.6 million), along with further support for school counselling services whether or not delegated under the Public Bodies (Joint Working) (Scotland) Act 2014 (£4 million);
- Baselineing of the £90 million added at Stage 1 of the Budget Bill for 2019-20;
- The ongoing £88 million to maintain the pupil : teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme;
- Provision for Teachers Pay (£156 million) and Pensions (£97 million);
- £5.3 million for Barclay implementation costs; and
- A new capital £50 million Heat Networks Early Adopters Challenge Fund to support local authorities who are ready to bring forward investment-ready heat networks.

The 2020/21 Angus Council grant allocation compared to the 2019/20 grant allocation per the Local Government circular No. 2/2019 is set out in table 1 below :-

Table 1 – Angus Council Revenue Grant Allocation

	2019/20 £m	2020/21 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Distributable Revenue Funding (per Finance Circular and subsequent announcements)	208.196	218.133	9.937	4.8
Funding yet to be distributed*				
Teachers Pay award	3.173	0.000		
Teachers Induction Scheme	0.619	0.526		
Discretionary Housing Payments	0.115	0.131		
Mental Health (School Counsellors)	0.240	0.000		
Mental Health Officer	0.000	0.010		
Barclay Review Implementation costs	0.014	0.007		
Revised Revenue Funding Total	212.357	218.807	6.450	3.0
Grants paid out-with Settlement				
Criminal Justice Social Work	0.243	0.000		
TOTAL REVENUE FUNDING	212.600	218.807	6.207	2.9

* - the detail of the allocations of grant for specific funding were provided in Appendices of the Finance Settlement and detailed working tables which were issued.

The grant allocation also includes funding which needs to be set aside as it is either known or can be reasonably assumed will relate to specific costs or new initiatives which will incur additional costs in 2020/21. These items need to be deducted in order to compare the revenue grant position on a like for like basis and assess what grant funding is available to meet the updated costs of existing service provision. This is set out in table 2 as follows:-

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

	2019/20 £m	2020/21 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Total funding (per Table 1)	212.600	218.807	6.207	2.9
Less: additional funding to be earmarked in base budget expenditure:				
Free Personal & Nursing Care		(0.071)		
Carer's Act		(0.275)		
Social Care Pressures		(1.856)		
Mental Health (School Counsellors)		(0.110)		
Access to sanitary products - Schools		(0.004)		
Access to sanitary products – Public Bodies		(0.030)		
Free Child Burials		(0.007)		
Whole System Approach		0.025		
Rapid Rehousing Transition Plan Homelessness		(0.288)		
Barclay Review Implementation costs		(0.020)		
Teachers Induction		0.093		
Discretionary Housing Payments		(0.126)		
Mental Health Officer		(0.010)		
Seatbelt on school transport		(0.004)		
Educational Psychologist Training		0.016		
	2019/20 £m	2020/21 £m	Increase/ (Reduction)	Increase/ (Reduction)

			£m	%
Less: new monies to be earmarked in base expenditure				
Teachers' Pension Increase		(0.810)		
Early Learning & Childcare Act		(0.018)		
Community Justice Transitional Funding		(0.032)		
Housing Support Grant		(0.020)		
Scottish Welfare Fund		(0.126)		
Additional Support for Learning		(0.326)		
Appropriate Adults		(0.021)		
Revised Revenue Funding Total		214.787		
Adjustments to Specific Grant in base expenditure:				
Criminal Justice Grant		0.172		
Gaelic Grant		0.007		
Pupil Equity Funding		(0.050)		
Early Learning & Childcare Expansion		(3.734)		
Revised Revenue Funding Total	212.600	211.182	(1.418)	(0.7)

3.5 Table 2 shows that there is a net reduction in the core revenue grant on a like for like basis of £1.418 million (0.7%). This reduction in the grant available to the Council to meet cost increases and other budgetary pressures is part of the reason the Council has a funding gap and needs to find savings in its budget.

3.6 The proposals in this and the related budget reports for this meeting are intended to allow the Scottish Government's required commitments to be achieved albeit the Council Tax for 2020/21 won't be finalised until report 88/20 is considered by the Council and the Local Government Finance (Scotland) Order 2020 is approved by Parliament. Subject to these caveats it is considered that the Council can set its budget on the basis of the various elements of the funding deal being achieved.

4. FORMULATION OF BASE BUDGETS

4.1 Service's base budgets have been prepared on an incremental basis using the 2019/20 budget as a starting point, allowing for those items of budget growth deemed allowable (unavoidable) in accordance with the Director of Finance's guidance and taking cognisance of significant factors adversely or favourably impacting on to budgetary requirements for 2020/21. Base budgets have been reviewed for accuracy and adequacy through a technical validation process. The bulk of allowable budget growth in 2020/21 is made up of the annual cost of the incremental progression along pay scales, the nationally agreed pay award increases, for teachers and local government employees, and unavoidable commitments in respect of PPP projects.

4.2 **Appendix 1** sets out a summary of the Council's net expenditure position for 2020/21 based on the provisional base budgets and budget issues recommendations for each service.

5. REVENUE BUDGET SPENDING CONSTRAINTS

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

6. BUDGET RESOURCES EXPECTED TO BE AVAILABLE

6.1 It is not possible to confirm the total budget resources expected to be available to the Council for 2020/21 until key decisions on the setting of the Council Tax have been made (e.g. provision for non-collection & contributions to/from the Council's Reserves etc). These issues are covered in more detail in the separate Council Tax Setting Report (Report 88/20).

6.2 In the absence of such Council Tax decisions, assumptions have been made as to the likely level of resources so as to inform decisions regarding budget savings. On the basis of the Net Expenditure as detailed in the Summary Statement of Net Expenditure at Appendix 1, which assumes approval of the budget issues (columns C & D); approval of the change programme savings proposals (column E) and approval of other adjustments (column F) of Appendix 1, a

shortfall of income over expenditure of £5.814 million will exist in 2020/21, of which £1.933 million is one-off. This assumes no increase in the Council Tax Charge (which will be decided at the Special Council meeting) but does take into account the expected increase in the Council Tax base due to new houses coming on to the Council Tax register of £0.315 million.

- 6.3 The Change Programme underway across the Council is intended to deliver as much of the savings as possible for the 2020/21 budget and beyond. Accordingly, there are no percentage savings targets for services to achieve and make proposals on as part of the budget submission process. Details of the Change Programme are shown in the Finance and Change Plan, Report (74/20). The Change Programme is expected to deliver total savings of £10.244 million whereof £4.244 million relates to the Angus Health and Social Care Integration Joint Board. Those Change Programme savings for the Angus IJB have been deducted from the budget allocation shown in Appendix 1. The remaining Change Programme savings of £6.000 million are shown as a separate line in Appendix 1. The savings will be allocated to individual Service budgets for production of the Council's Final Revenue Budget Volume in April.
- 6.4 The audited General Fund uncommitted balance at 31 March 2019 was £7.220 million. This uncommitted balance position is after allowing for a £4 million earmarked contingency fund to address any significant one-off issues which may arise during the course of the current and forthcoming financial year.

The projected uncommitted General Fund Balance is set out in Table 3 below:-

Table 3 – Uncommitted General Fund Balance

	£m
Uncommitted General Fund Balance per the 2018/19 Audited Accounts	7.220
Commitments agreed during 2019/20	(0.071)
Projected 2019/20 underspend, committee report 22/20 refers	0.694
Saving in energy costs banked for 2020/21 (Report 216/19 refers)	0.323
Expected share of AHSCP reserves returned to Angus Council	0.545
Estimated Uncommitted General Fund Balance at March 2020	8.711

The expected share of reserves to be returned to the Council from the Angus Health and Social Care Partnership (AHSCP) is reasonably certain but has to be confirmed by the Angus IJB. It arises because the AHSCP has underspent/made savings against budget in the first 3 years of its existence.

- 6.5 In light of the ongoing challenges affecting the Council's budget and in order to avoid further cuts in essential services, the option of implementing an increase in Council Tax for 2020/21, could be considered unavoidable in order to limit the impact on services to the public. As permitted by the Scottish Government in their 2020/21 Finance Settlement offer the Council can chose to increase the Council tax by a maximum of 4.84%. If this option was agreed this would provide the Council with increased Council Tax income estimated at £2.650 million which along with the other measures described in this report would assist the Council to set a balanced budget for 2020/21.

7 OTHER ISSUES PERTINENT TO THE 2020/21 REVENUE BUDGET

- 7.1 The following issues are also relevant to the consideration of the 2020/21 Provisional Revenue Budget set out in this report.

7.2 Angus Health and Social Care Partnership (IJB)

The Statement of Net Expenditure at Appendix 1 shows that the Council's proposed budget allocation to the IJB is £47.502m. The 2020/21 finance settlement included £100 million for Health and Social Care budgets and COSLA is currently seeking clarification on the treatment of this for local authorities as the settlement states that this should be additional and not substitutional to each Council's recurring budget for social care services that are delegated. The interpretation of the information received to date means that the (-1.0%) saving of £0.475 million previously shown as part of the change programme for 2020/21, is no longer achievable. Included within the £100 million allocation was £4 million for school counselling services and the

Council retains their share of this funding. Therefore, the allocation of the £96 million has been calculated as £2.202 million and this has been added to the IJB 2020/21 budget increasing this to £49.704 million. The £49.704 million allocation is after assuming £4.244 million of budget issues and pressures affecting the IJB adult services budget in 2020/21 will be met from a combination of the additional Government resources provided and other savings identified by the IJB. Members are asked to note that the Angus IJB is due to meet on 26 February 2020 to consider its budget. The proposed budget allocation from Angus Council will be noted as provisional and subject to confirmation at the Council's budget setting meeting. The IJB can't finalise its budget until the Council's proposed budget has been confirmed and ultimately both the Council and IJB need to reach agreement on the proposed budget.

7.3 Budget Issues (Unavoidable Cost/Demand Pressures), Service Development & Investment Bids
Through the budget process a number of areas were identified where an unavoidable increase in budget is required in 2020/21. These were discussed and reviewed in detail by the Policy & Budget Strategy Group (PBSG).

Excluding the IJB budget pressures a total of £3.986 million is recommended for approval, comprising £1.933 million one-off issues and £2.053 million issues on an ongoing basis. All of these budget issues have been added into service revenue budgets. A description of these budget issues for each service can be found in the Provisional Revenue Budget Volume (Report 83/20) under the Budget Issues, Service Development & Investment Bids recommended for approval section.

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

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

- Pay Award - £4.502 million to cover the costs of agreed pay increases for all staff including teachers and Tayside Contracts.
- Other Services includes a provision of £0.500 million for additional burdens. This provision will be used if required to meet any budget issues arising during 2020/21 which cannot be managed via service budgets.

Budget issues to be funded through compensating savings

As part of the 2020/21 budget process two services submitted budget issues that they considered could be self-funded by making compensating adjustments to service levels or by using existing budgets for a different purpose.

Infrastructure services submitted budget issues totalling £0.130 million as part of the 2020/21 budget process which they identified they could self fund by their service. The Budget Issues were Inflationary Costs for Winter Maintenance (£0.065 million) and Public Transport (£0.065 million).

Winter Maintenance

An options appraisal on Winter Service Provision for financial years 2019/20 – 2021/22 set out potential service reductions to manage the inflationary impact on the service. The options that were implemented in 2019/20 combined with service efficiency measures have provided sufficient savings to contain the inflationary costs for 2020/21.

Public Transport

An options appraisal on Local Bus Service Provision for financial years 2019/20 – 2021/22 set out potential service reductions to manage the inflationary impact on the service. The options have been reviewed for 2020/21 and an additional option of removing the A545 Arbroath Town Centre Service is proposed to meet this budget issue. Any excess in savings will be used towards savings in 2021/22.

Communities Services also submitted a number of budget issues which were proposed to be self-funded through re-alignment of current base budget and these totalled £0.730 million: new dry mix recyclate contract costs, £0.462 million; MOD access payment re-instated due to non-closure of Monifieth Recycling Centre £0.023 million; continuing reduction in recyclate income £0.120 million; increase in annual MEB (Waste Incineration plant, Dundee) £0.125 million. These additional costs within the Communities budget are to be self-funded by deleting the current budget provision for vehicles funded from revenue. This self-funding approach

removes a pressure on the revenue budget but will over time mean a greater need for capital spending to acquire new vehicles.

These combined self-funded budget issues total £0.860 million and have not therefore impacted on the projected funding gap.

7.4 Review of Charges

The PBSG agreed to adopt a new policy for the review of charges as recommended by officers to introduce a Council wide RPI increase on charges from 2019/20 and onwards. This proposed policy would be applied as a default or starting position, unless there are exceptional circumstances. For 2020/21 the RPI at May 2019, of 3.0%, has been used across all Council services, except for the green waste bin charge which is proposed to increase by 5.5% to £30 for 2020/21.

As part of the budget process a number of services have identified proposals for reviewing the charges levied for the provision of certain Council services in accordance with this policy. These are the subject of separate reports to this meeting of the Council. The financial impact of the proposed review of charges has been reflected in the Change Programme Savings of £10.244 million per column E of Appendix 1.

There has been no increase in any of the charges which come from the Schools & Learning service in 2020/21, this means that the school meals, school lets and music tuition fees are recommended to remain the same as 2019/20.

7.5 Other Adjustments

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

- Angus Health & Social Care Partnership - £2.202 million – see paragraph 7.2 above;
- Corporate Items - Earmarked Grants to be allocated - £1.818 million grant funding that still needs to be allocated and earmarked in Service budgets;
- Others - Specific Grants Netted off with Services - £3.605 million – increase in specific grants to be earmarked.

7.6 Capital Financing Costs (Loan Charges)

The separate Prudential Indicators report (Report 90/20) outlines that the provision for capital financing costs within the 2020/21 revenue budget is considered sufficient to meet the commitments as contained in the Provisional Capital Budgets Volume (Report 84/20). However it should be noted that any material amendment to the capital budget for 2020/21 would almost certainly necessitate amendment to the Prudential Indicators, and could require amendment of the capital financing costs budget provision. Any amendment to the capital financing costs budget would also have consequences in respect of the overall revenue budget for 2020/21.

7.7 Surplus Local Tax Income & MOD Council Tax Income

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

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

Committee report 57/19 to the Special Budget Meeting of Angus Council on the 21 February 2019 approved the recommended change to the Current Long Term Property Policy. This recommended that from 1 April 2019 the funds raised on long term empty properties and second homes be split 75% General Fund and 25% Affordable Housing Rent Account (AHRA) in place of the then current position where 100% of the funds raised go to the AHRA. Based on expected yields this would mean £0.250 million going to the General Fund and £0.085 million going to the AHRA in 2020/21. The £0.250 million has been included in the net expenditure summary at Appendix 1.

7.9 Joint Board / Arrangement Budgets

The 2020/21 revenue budget for the Tayside Valuation Joint Board was agreed at the Board meeting on 20 January 2020. Angus Council's budgeted share of the Joint Board's net expenditure is £0.734 million, excluding Electoral Registration Services which are budgeted for separately within Other Services.

The 2020/21 revenue budget for the Tayside Contracts Joint Arrangement has yet to be determined. However, from current information available, the Angus share of the total estimated surplus for 2020/21 is £0.460 million.

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

7.10 Summary Budget Position

Table 4 below summarises the total budget gap and the measures proposed to address it. How the gap will be closed in full will be determined at the Special Council meeting on 27 February 2020.

Table 4 – Balancing the 2020/21 Revenue Budget

	Ongoing £m	One-Off £m	Total £m
Gross Funding Gap before Service Developments	13.080	1.933	15.013
Service Developments	1.360	0.000	1.360
Overall Funding Gap	14.440	1.933	16.373
Less Change Programme Savings - AHSCP	(4.244)	0.000	(4.244)
Less Remaining Change Programme Savings	(6.000)	0.000	(6.000)
Less Expected increase in Council Tax Base (Report 88/20)	(0.315)	(0.000)	(0.315)
Adjusted Gap Before Council Tax and Contributions to/from Council Reserves	3.881	1.933	5.814
Potential Council Tax Increase	TBC	TBC	TBC
Contributions to/from Council Reserves	TBC	TBC	TBC
Net Position (must be nil to achieve balanced budget)	Nil	Nil	Nil

7.11 Common Good Budgets 2020/21

Common Good Budgets for 2020/21 are included in the Provisional Revenue Budget Volume (report 83/20). Proposals for specific projects will be considered during the year in consultation with local members and will be submitted for approval to the Policy & Resources Committee in due course.

8 KEY ASSUMPTIONS & RISKS

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

8.2 Management of Budget Risks in General

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

- Assessment of Budget Issues

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

- Savings Capable of Delivery

The Change Programme is the primary route through which savings in budgets are being identified and delivered. Change Programme projects are at different stages in their life cycle with some complete and being implemented and others requiring further work to finalise where the savings will come from in the existing budgets. All projects with savings for 2020/21 are expected to be complete or in their implementation phase by quarter 1 of 2020/21.

Based on the latest information provided by project leads and the review of all projects in the Change Programme by the Council Leadership Team and Change Board officers are confident of achieving the targeted savings for 2020/21. Nevertheless there is a risk that some downward movement against expected savings could emerge as projects are implemented or if any project implementation is delayed. At the point of setting the 2020/21 revenue budget that risk is considered to be low but should it arise the Council has reasonable contingency funds to manage that risk during 2020/21. The Council has a long history of taking difficult but pragmatic decisions on budget savings and of such savings being achieved. Further commentary on the budget provision for Change Programme risks is given in the Council Tax report (Report XX/20)

- Provision for Inflation

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

- Contingencies

Another critical element of the Council's management of budget risk is the availability of contingencies both within the budget and in funds and balances. The current contingency in the Council's reserves is £4.0 million and this is considered adequate given other provisions and the availability of uncommitted General Fund Balances.

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

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

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

8.5 Potential Risks Caused by Brexit

Regular updates on the Council's preparations for Brexit have been provided to the Policy & Resources Committee over the last year or so. There is a possibility of additional Government funding being provided to local authorities as part of the Brexit process but there is no certainty in this regard and the Council's 2020/21 revenue and capital budgets therefore currently include no allowance for such potential income. In terms of the risk of additional costs no specific provision has been made in the revenue or capital budgets for 2020/21 for Brexit consequences. These risks will accordingly be managed as part of the Council's overall budget risk management strategy and contingency and reserves funds set aside for those purposes.

8.6 In summary as author of this report and based on the information and assurances provided by Change Programme project leads regarding savings delivery I am content that based on the latest information available and my discussions with the Chief Executive and the Council Leadership Team that the proposed 2020/21 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 Council Reserves 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 2020/21.

8.7 Members will however appreciate that further risk lies beyond the 2020/21 budget in relation to possible further funding reductions in real terms which seem likely to apply. Further comment on this is given at Section 9 of this report but the key issue is to set a budget for 2020/21 that is realistic and which can provide flexibility for future years.

9 PROSPECTS FOR 2021/22 & BEYOND

9.1 Members will be aware that the financial challenges facing local government seem set to continue for the foreseeable future so with this in mind Members are asked to note the following in the context of the 2020/21 budget setting process:-

- The Council needs to set a 2020/21 budget which recognises that significant financial challenges will continue beyond 2020/21, i.e. there is a need to be responsible, prudent and avoid taking short term decisions. The budget proposals for 2020/21 have accordingly sought to balance the need for investment in services now with the need to provide financial flexibility into the future.
- Council Services need to continue to consider very carefully the extent to which they enter into longer term expenditure commitments moving forward. It must be recognised that any additional expenditure on a particular service will simply increase the burden of savings to be made in other areas. All Directors of Service have been reminded of this as part of finalising the 2020/21 budget strategy.
- Using the Medium Term Budget Strategy (Report 288/19 refers) the most up to date Change Programme estimates and allowing for the 3rd year of the proposed pay deal on offer to all staff including teacher's the position for 2021/22 and 2022/23 is currently projected to be as follows:

Table 5 – 2021/22 and 2022/23 Estimated Funding Gap

	2021/22 £m	2022/23 £m	2 Year Total £m
Projected Funding shortfall	11.200	9.500	20.700
Adjustment for previous years funding gap dealt with on a one-off basis (note 1)	3.881	1.500	5.381
Sub-total	15.081	11.000	26.081
Change Programme savings	(8.405)	(8.281)	(16.686)
Less 3 year General Fund Balances Drawdown Strategy	(1.500)	(1.000)	(2.500)
Estimated funding gap still to be addressed (note 2)	5.176	1.719	6.895

Note 1 – this figure assumes no increase in Council Tax is applied in setting the 2020/21 budget as this has still to be determined so is shown for illustrative purposes only at this stage.

Note 2 – remaining funding gap in 2021/22 and 2022/23 is based on no Council Tax increase.

9.2 Table 5 shows that a significant funding gap remains to be bridged. It is however important to note the role that Council Tax increases can play in reducing or potentially eliminating that gap. For example if the Council ultimately agreed Council Tax increases in 2020/21, 2021/22 and 2022/23 at the maximum level allowed for 2020/21 of 4.84% this would yield more than £8m in additional income which would be more than sufficient to close the remaining gap identified above. In the event that Council wishes to pursue lower Council Tax increases in each of the next 3 financial years additional savings in budgets may need to be found beyond those currently identified. These matters will be considered further in the next update to the Council's Medium Term Budget Strategy. Members are asked to note the high level projected funding gap and savings position for 2021/22 and 2022/23 as set out in Table 5 in setting the 2020/21 revenue budget.

9.3 During the course of preparing the 2020/21 revenue budget some areas of risk and/or strategic priority have been identified that will undoubtedly impact on the council in future years and which may need further investment. These issues are summarised below:-

- Demographics – changes to the population are placing increased pressures on certain council and partner services. There is likely to be a requirement for increased investment in these services over the medium term.

- Third Party Inflation – third party providers of services on behalf of the Council are likely to continue to place additional strain on the council in future years to recognise their cost pressures. Although the council is committed to working with providers to increase efficiencies, it is likely further investment will be necessary to continue delivery of these critical services.
- Angus Health and Social Care Partner (IJB) – there are a number of risks within the budget provision for Older People and Adult Services, which was devolved to the Angus Integration Joint Board on 1 April 2016. Further detail is provided in Report 80/20, “Devolved Budget to Angus Health and Social Care Integration Joint Board 2020/21”. In particular Angus Council is now exposed to a share of the whole risk of the activity of the Angus IJB covering both health and adult social care services.
- ANGUSALive – the proposed budget settlement between the Council and ANGUSALive is covered in more detail in Report 81/20. The ANGUSALive Finance & Audit Sub Committee considered potential budget allocations from the Council on 31 January 2020, although the full Board will only consider the final budget proposal at their meeting of 28 February 2020 so this remains an area of risk until agreement is reached with the full Board.

9.4 An update of the Council’s Medium Term Budget Strategy (report 288/19) will be provided later this year and will pick up the impact of these issues.

10 REVENUE BUDGET DOCUMENTATION

10.1 The revenue budget information required for the Special Meeting of Angus Council on 27 February 2020 is contained in this report and the under-noted report: -

Report 83/20 – 2020/21 Provisional Revenue Budget Volume

10.2 This Volume contains a summary of each Service’s budget for 2020/21 and a description of the proposed budget issues as they affect each service area.

11 BACKGROUND – GENERAL FUND CAPITAL BUDGET 2020/21

11.1 Capital budget preparation guidance was issued by the Director of Finance outlining the procedures to be followed in the preparation of the 2019/2024 Capital Plan and 2020/21 capital budget and requiring services to submit capital plans based on an approved list of priority projects, as well as details of proposed new priority projects.

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

Table 6

Policy & Budget Strategy Group	28 November 2019, 15 January 2020, 30 January 2020, 12 February 2020
Shadow Budget Group	3 December 2020, 6 January 2020, 3 February 2020, 11 February 2020

11.3 A programme of long-term funding strategy measures has been developed which is intended to maintain levels of capital expenditure into the future. Report 89/20 on the long-term affordability of the General Fund capital plan provides more detail of the measures which have been developed.

12 CAPITAL RESOURCES

12.1 Background

The 2019/2024 Capital Plan, incorporating the 2020/21 capital budget, has been prepared under the self-regulating Prudential Code regime.

Under the Prudential Code the level of capital expenditure is not the key influence within the setting of the Capital 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 2019/2024 Capital Plan has been prepared in this context and further information relating to the Prudential Code is contained in Report 90/20.

12.2 2020/21 Local Government Finance Settlement

Finance Circular 1/2020 (issued on 6 February 2020) provided details of funding allocations for 2020/21. No definitive information is available for 2021/22 onwards. Table 7, below, details Angus Council's capital support for 2020/21:

Table 7

Funding Source	2019/20 £m	2020/21 £m
General Capital Grant (including Arbroath Flood)	14.314	11.926
General Capital Grant – re-profiled from 2016/17	2.426	n/a
General Capital Grant – re-profiled from 2016/17 (flooding)	3.132	n/a
Specific Capital Grant - Cycling, Walking and Safer Streets	0.158	0.191
Specific Capital Grant – Cycling, Walking and Safer Streets – re-profiled from 2016/17	0.033	n/a
Specific Capital Grant – Town Centre Improvement Fund	1.080	n/a
Specific Capital Grant – Early Years Expansion	3.200	2.200
Total Support for Capital	24.343	14.317

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

13 KEY POINTS OF NOTE FOR CAPITAL BUDGET SETTING

13.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (2017 Edition) introduced a requirement for the production of a capital strategy, the purpose of which is to demonstrate that an authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. Angus Council's capital strategy for 2020/21 is presented at agenda item 5(k) of this meeting (report 85/20) refers.

13.2 A thorough exercise has been carried out by Finance officers to assess the long-term affordability of the 2019/2024 Capital Plan. Full details of that assessment are provided in report 89/20.

13.3 In preparing the 2020/21 capital budget existing projects have been reviewed and additional resources are recommended for a small number of new high priority capital projects / programmes, which are now included in the Provisional Capital Budget Volume (report 84/20):

- £4.0 million for roads capitalised maintenance;
- £300,000 for property capitalised maintenance;
- £100,000 for ground maintenance machinery replacement programme;
- £100,000 for general vehicle replacement programme;
- £250,000 for schools information and communication equipment;
- £170,000 for IT infrastructure and hardware refresh programme;
- £15,000 for equipment replacement at Sandy Sensation, Carnoustie;
- £450,000 for renewable and low carbon technologies;
- £115,000 for LED lighting upgrades;
- £3.0 million for Arbroath Active Travel Active Town;

- £800,000 for preliminary coast protection works in Montrose;
- £3.0 million for flood risk management (includes £2.8 million in later years of capital plan);
- £22.5 million for Angus Schools for the Future (Monifieth Cluster) (includes £12.5 million in later years of capital plan);
- £250,000 for Stracathro Primary School toilet improvements and nursery works (the £90,000 set aside for nursery works is departmental borrowing);
- £177,000 for Woodlands Primary School reconfiguration;
- £650,000 for improvements at Seaton Grove Residential Home, Arbroath;
- £7,000 for the purchase of display cases for the Carnoustie archaeological finds.

13.4 The long term affordability assessment also allows for a total general contingency level of £4.0 million and a specific provision for the Tay Cities Deal of £6.0 million over the 5 years of the capital plan.

14 2019/2024 CAPITAL PLAN (INCORPORATING THE 2020/21 CAPITAL BUDGET)

14.1 The 2019/2024 Capital 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 2020 and that which is not anticipated to be legally committed by 31 March 2020.

14.2 **Appendix 2** provides a summary of the provisional directorate capital budgets for 2020/21 as contained in the Provisional Capital Budget Volume and shows an estimated net capital expenditure of £27.313 million. **Appendix 2** also shows that after the inclusion of the agreed contingency and removal of the oversubscription level built into the programme, as well as the application of corporate capital receipts, corporate Capital Funded from Current Revenue (CFCR) and general Scottish Government capital grant, the funding of the provisional capital budget will require new borrowing (before the application of assumed slippage) of £14.079 million in 2020/21.

15 CAPITAL BUDGET DOCUMENTATION

15.1 The capital budget information required for the Special Budget Meeting on 27 February 2020 is contained in both this report and report 84/20 – Provisional Capital Budget Volume. The budget volume contains details of each service's budget submission for 2020/21 and their overall capital plan submission for the period 2019/2024.

16 POTENTIAL CHANGES TO GOVERNMENT GRANT

16.1 As outlined in paragraph 3.2 at the time of writing this report the Scottish Government's proposed budget for financial year 2020/21 has still to be approved by the Scottish Parliament. Discussions between the Government and other parties are ongoing to try to secure support for the Scottish Budget. The timetable for agreeing the Scottish Budget is far later than normal this year following the UK General Election in December 2019 and despite the Council setting its budget later than in previous years there still remains some uncertainty over the final grant settlement for local government including Angus Council.

16.2 The revenue and capital budget proposals set out in this report and the other reports for the Council Tax setting meeting are based on the provisional grant allocations provided by Scottish Government on 6 February 2020. It remains possible that the results of the discussion and negotiation process at national level on the Scottish Budget will result in changes to the grant settlement and its terms for Angus Council. The likelihood of local government receiving less grant as a consequence of national negotiations seems remote. Based on experience in previous years changes could mean an increase in revenue and/or capital grants as well as additional flexibility in areas such as funding allocations to IJBs.

16.3 In addition to the uncertainty at Scottish level there remains a possibility of further changes as a consequence of the UK Budget announcements scheduled for 11 March 2020.

16.4 Given this uncertain position it is recommended that the Council set its budget and Council Tax on the basis of the grant offer which has been made. In the event that the terms of the grant settlement change the following process and principles are recommended for adoption:-

(i) officers will as soon as practicable bring a report to the Policy & Resources Committee or full Council outlining what changes have arisen and what implications this has for the revenue and capital budgets set on 27 February 2020;

(ii) members will be asked to agree any refinements to the revenue and capital budgets set as a consequence of (i) above. It may be necessary for the PBSG/SBG to meet to consider options;

(iii) any additional revenue grant or other positive flexibility affecting the revenue budget could be used to reduce the Council's use of one-off General Fund Balances to balance the 2020/21 revenue budget but this would need to be considered and agreed by members under (ii) above;

(iv) any refinements to the revenue budget would not involve a change to the 2020/21 Band D Council Tax which Council will set on 27 February 2020; that would remain unaltered regardless of any changes to the Council's grant allocations.

Members are asked to approve the approach outlined in (i) to (iv) above to any changes which may arise in the Council's grant allocation.

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 1/2020 issued on 6 February 2020 by the Scottish Government;
- Letter of 6 February 2019 from the Cabinet Secretary for Finance, Economy and Fair Work to COSLA President

REPORT AUTHOR: Gillian Woodcock, Manager (Finance)

EMAIL DETAILS: FINANCE@angus.gov.uk

List of Appendices:

Appendix 1 - Statement of Net Expenditure

Appendix 2 - Provisional Capital Programme (Summary)