

**ANGUS COUNCIL**

**ANGUS COUNCIL – 10 SEPTEMBER 2020**

**2020/21 FINAL CAPITAL BUDGET - GENERAL FUND**

**REPORT BY THE DIRECTOR OF FINANCE**

**ABSTRACT**

This report presents to members the updated 2019/2024 General Fund Capital Plan, incorporating the 2020/21 capital monitoring budget, including the proposed approach for dealing with the financial impact of the COVID-19 pandemic on the capital programme.

**1. RECOMMENDATION**

1.1 It is recommended that the Council:

- (a) notes the contents of this report and that there remains a degree of uncertainty around the financial impact the COVID-19 pandemic is having on the capital programme which may yet continue for some time to come;
- (b) approves the proposed approach to funding the financial impact of the COVID-19 pandemic (paragraph 5.2 refers);
- (c) approves the contents of the updated 2019/2024 General Fund Capital Plan (attached at **Appendix 1**);
- (d) approves the requests for additional funding totalling £997,000 (paragraph 6.2 refers); and
- (e) notes that the 2020/21 capital budget represents the Council's approved budget for General Fund capital monitoring purposes.

**2. ALIGNMENT TO COUNCIL PLAN / LOCAL OUTCOMES IMPROVEMENT PLAN**

2.1 The projects undertaken through the Council's capital programme (as reflected in **Appendix 1**, attached) reflect the Council's corporate priorities and contribute as a whole to the local outcomes within the Council Plan and Local Outcomes Improvement Plan.

**3. BACKGROUND**

3.1 At the special meeting of Angus Council on 27 February 2020, the Council approved the 2019/2024 General Fund Capital Plan, incorporating the provisional 2020/21 capital budget of £27.313m (report 84/20 refers). A comprehensive update of departmental capital programmes (based on the unaudited actual position at the close of the 2019/20 financial year) was undertaken over the summer months to inform the 2020/21 final capital budget position. This exercise was also designed to capture the expected impact the COVID-19 pandemic is having on the capital programme, both in terms of timescales and costs.

3.2 The cessation of capital works across the Council as a result of the pandemic has had a significant impact on the 2020/21 capital programme and budget which was approved in February 2020. As part of the capital plan update exercise, officers were asked to determine their best estimates of the pandemic's effect on the cost and phasing of projects and, where increased costs could not be contained within existing budgets, or where new COVID-related expenditure pressures had arisen, submit bids for additional resources to fund these.

3.3 The bids submitted were split into 3 broad categories:

- (i) additional costs due to COVID-19 affecting existing approved capital projects
- (ii) new projects required as a result of the COVID-19 pandemic
- (iii) non COVID-related additional costs on existing approved projects or new projects.

3.4 What has emerged from this exercise is that the full financial impact of the pandemic on the capital programme is still very much uncertain and this has required the use of broad estimates in updating the 2020/21 capital budget. As projects that had already commenced on site prior to lockdown gradually start to resume, any additional costs arising from issues such as contractors being on site for longer or raw material availability may not actually materialise for a number of months yet. Likewise, any impact the pandemic has on works that have yet to be tendered for remains unknown – it is possible that competition in a difficult economic environment may drive costs downwards while measures such as social distancing and enhanced hygiene requirements may increase costs. In essence therefore what these bids for additional funding have highlighted is, in most cases, a potential impact rather than an actual impact, and this is reflected in how they are proposed to be dealt with for budget planning purposes.

3.5 The Capital Projects Monitoring Group (CPMG) met on 6 August 2020 to review the updated capital plan and to scrutinise and challenge the officers in attendance on their proposed spending plans in terms of robustness and achievability.

3.6 The updated capital plan and funding bids were thereafter considered by the Policy & Budget Strategy Group (PBSG) at their meeting of 20 August 2020, alongside a proposed strategy for managing the various projects seeking additional resources (see paragraph 5.2). The Shadow Budget Group was also briefed on the updated capital position at their meeting on 24 August 2020.

**4. UPDATED CAPITAL RESOURCES POSITION**

4.1 The 2019/2024 Capital Plan approved at February’s special budget meeting was informed by the levels of general and specific capital grants for 2020/21 in the Scottish Government’s Finance Circular 1/2020 (issued on 6 February 2020). Finance Circular 2/2020 (issued on 10 March 2020) provided additional allocations of both general and specific capital grant, as detailed in Table 1 below:

**Table 1**

<u>Funding Source</u>	<u>FC 2/2020</u>	<u>FC 1/2020</u>	<u>Increase</u>
General Capital Grant	<b>£12.442m</b>	£11.926m	£0.516m
Specific Capital Grant – Cycling, Walking & Safer Streets	<b>£0.511m</b>	£0.191m	£0.320m

4.2 The £516,000 increase in general capital grant, which was brought about by an adjustment to the distribution of the Strategic Waste Fund element of the grant, will provide a degree of headroom when it comes to funding additional calls on the capital programme brought about by the COVID-19 pandemic. This change is a distribution change and the funding is not ring-fenced. The additional funding of £320,000 for Cycling, Walking & Safer Streets has been committed following the approval of report 180/20 to the Special Arrangements Committee of 23 June 2020.

4.3 The Scottish Government has also made available funds to address digital exclusion amongst children and young people and Angus Council has been awarded specific grant of some £439,000 in this regard. The expenditure that will be incurred as part of this initiative has been built into the updated 2019/2020 Capital Plan, fully funded by the grant awarded.

4.4 Updated estimated capital resources totalling £89.515m over the 5 year period of the 2019/2024 Capital Plan are detailed in Table 2 below, alongside a comparison of the Provisional Budget Volume position approved at February’s budget setting meeting (report 89/20 refers).

**Table 2**

	<b>Updated Resource Position £m</b>	Total Resources Per R89/20 £m	Increase / (Decrease) £m
Scottish Government General Capital Grant	<b>68.084</b>	67.542	0.542
Corporate Capital Receipts (from Sale of Assets)	<b>1.035</b>	1.100	(0.065)
CFCR (via Special Repayment Strategy)	<b>1.326</b>	1.326	-
Corporate Borrowing	<b>19.070</b>	19.070	-
<b>Total Resources</b>	<b>89.515</b>	89.038	0.477

- 4.5 The £542,000 increase in general capital grant reflects the aforementioned Strategic Waste Fund distribution and a small underspend against budget (£26,000) in 2019/20 on grant earmarked against non-enhancing capital expenditure. The decrease in estimated corporate capital receipts is due to the actual income received from asset sales in 2019/20 being some £65,000 lower than budget.
- 4.6 The above increase in total resources, coupled with other minor movements on the wider capital programme, have created additional headroom totalling some £536,000 and this forms part of the funding of the 2020/21 capital budget including the bids for additional funding.

## **5 PROPOSED STRATEGY FOR DEALING WITH BIDS FOR ADDITIONAL FUNDING**

- 5.1 The PBSG considered a number of funding options with regard to dealing with additional costs arising from the pandemic, as well as other non-COVID related resource issues, including:
- utilising the £536,000 headroom noted in paragraph 4.6
  - use of an unbudgeted capital receipt from Seagreen Wind Energy of some £1.1m which will materialise over the course of the 2020/21 and 2021/22 financial years
  - use of the general capital contingency, the balance of which is currently £3.830m (with potential commitments of £1.677m against it)
  - deferral or cancellation of some projects that have not yet reached the legal commitment stage
  - where cost increases are possible but not yet certain or confirmed, awaiting outcome of further assessment work before adjusting any budgets.
- 5.2 The proposed strategy agreed by the PBSG, which the Council is asked to approve, and upon which the draft 2019/2024 Capital Plan attached at Appendix 1 has been prepared, is:
- (a) budgets are only adjusted now where there is an agreed need to do so, either for: non-COVID reasons; for additional investment in response to COVID-19; or where cost changes due to COVID-19 are known or can be reasonably estimated based on the provisions in the contract.
- (b) the Seagreen capital receipt is used to support the management of any further COVID additional cost impacts under (a) above over the coming months, to be drawn down as cost impacts become known.
- (c) for the remainder of the financial year, any COVID additional cost impacts (once confirmed figures are available) are managed by drawing down from the capital receipt and capital contingency (subject to point (d) below) – these changes would require agreement through the regular capital budget monitoring reports submitted to the Policy & Resources Committee.
- (d) a limit is set on the use of the capital contingency for the remainder of the 2020/21 financial year so that it won't fall below £3.5m.
- (e) in the event that the Seagreen capital receipt and capital contingency are insufficient to fund additional costs which arise, compensating savings by adjusting the capital programme will need to be found either in 2020/21 or 2021/22.
- 5.3 Point (a) to (e) above means that the Council would have a strategy for dealing with any unavoidable additional costs beyond current budget allowances which may arise in the months

ahead but only within a limit which if reached would require compensating adjustments to be made to live within the resources available. Where costs reduce this will provide additional flexibility within the overall strategy. This ensures the Council's priority of supporting the local economy through its capital budget is maintained, but not at any cost.

- 5.4 This recommended approach ensures that: budgets are adjusted where currently needed, but not before; there is an agreed approach to managing and funding cost increases which may arise in the coming months; a reasonable level of capital contingency is retained; and compensating savings being required on a large scale, which may hurt service provision and the wider economy, are avoided.

## **6 UPDATED 2019/2024 CAPITAL PLAN**

- 6.1 The updated 2019/2024 Capital Plan, reflecting the impact of 2019/20 actual expenditure on the budget and phasing of projects for 2020/21 onwards, is attached at Appendix 1.

- 6.2 Using the proposed approach detailed in paragraph 5.2, the following bids for additional funding have been recommended for approval by the PBSG and, in order to provide a more complete position have been built into the updated 2019/2024 Capital Plan:

- General Vehicle Replacement Programme (Communities) – a non-COVID related issue, the bid for additional resources of £419,000 has been necessary due to a widescale review of the existing programme and the rising purchase cost of vehicles.
- Structural Works to Pool Hall at Arbroath Sports Centre (Infrastructure) – a non-COVID related issue, the bid for additional resources of £160,000 has been brought about through works identified during a separate Schools & Learning project to upgrade changing areas.
- IT Provision for Home Working / Mobile Phone Hardware (Digital Enablement & IT) – new projects brought about as a direct result of the pandemic, £418,000 of capital funding is being sought to enable equipment to be purchased so staff (including the new intake of Modern Apprentices) can safely and reliably work from home whilst access to office buildings continues to be restricted (and will be so for some time into the future).

- 6.3 The £997,000 total cost of the above recommended bids can be contained within the headroom and partial draw down of the Seagreen capital receipt, thereby ensuring the updated 2019/2024 Capital Plan remains affordable in terms of the resources available.

- 6.4 The remaining bids for additional funding concerned very broad estimates of potential COVID related costs. In line with the proposed strategy, these will be considered as and when actual costs start to come through and the necessary funding applied accordingly, and will be reported through the existing capital monitoring procedures in place of CPMG meetings and reports to the Policy & Resources Committee.

## **7. 2020/21 CAPITAL MONITORING BUDGET**

- 7.1 The 2020/21 capital monitoring budget and updated funding position is detailed in Table 3 below, alongside comparable figures from February's budget setting meeting (per report 84/20):

**Table 3**

<b>2020/21 Capital Monitoring Budget and Funding</b>	<b>Capital Monitoring Budget £m</b>	<b>Provisional Capital Budget (R84/20) £m</b>	<b>Movement £m</b>
Strategic Policy & Economy	0.610	0.676	(0.066)
Communities	3.799	4.037	(0.238)
Infrastructure	10.942	18.355	(7.413)
Schools & Learning	2.622	2.658	(0.036)
Digital Enablement & Information Technology	1.035	0.561	0.474
Angus Health & Social Care Partnership	1.004	0.759	0.245
Angus Alive	0.114	0.267	(0.153)
<b>General Fund Capital Monitoring Budget 2020/21</b>	<b>20.126</b>	<b>27.313</b>	<b>(7.187)</b>
Scottish Government general capital grant	12.084	11.568	0.516
Corporate capital receipts from asset sales	0.711	0.250	0.461
Estimated borrowing for capital purposes	6.289	14.405	(8.116)
CFCR (Balance of Special Repayments)	1.042	1.090	(0.048)
<b>Funding 2020/21</b>	<b>20.126</b>	<b>27.313</b>	<b>(7.187)</b>

- 7.2 Funding elements such as ring-fenced capital grants, external funding contributions, Capital Fund and other internal funding contributions are reflected within the capital plan itself, netted off against the gross cost of particular projects. Anticipated capital receipts from the sale of assets are not specifically shown in the capital plan (unless by exception, where committee approval has been given to ring-fence a receipt for a particular project). Likewise, general capital grant received from the Scottish Government is not reflected on the face of the capital plan unless it is being utilised to fund third party capital expenditure.
- 7.3 The 2020/21 capital monitoring budget of £20.126m shows a net decrease of £7.187m when compared with the provisional capital budget position reflected in report 84/20 (£27.313m). The most significant movements in 2020/21 are:
- Restenneth Landfill Site Phase 3b Capping (Communities) – rephasing of expenditure from 2020/21 into 2021/22 as implementation of closure plan is further developed (-£227,000)
  - Provision for Agile Angus / Estates Review (Infrastructure) – good progress in 2019/20 resulted in expenditure being advanced from 2020/21 (-£324,000), along with some rephasing from 2020/21 into 2021/22 (-£225,000)
  - Arbroath (Brothock Water) Flood Protection Scheme (Infrastructure) – significant rephasing over the years 2020/21 to 2022/23 following recent tender exercise, per report 181/20 (-£6.597m)
  - Work From Home IT Provision / Mobile Phones Hardware (Digital Enablement & IT) – new projects brought about as a direct result of the COVID-19 pandemic, as detailed in paragraph 6.2 (+£418,000)
  - Provision for The Gables Replacement (Angus Health & Social Care Partnership) – expenditure slipped from 2019/20 into 2020/21 (+£250,000).
- 7.4 The revised estimated borrowing of £6.289m remains affordable in terms of the allowances made within the 2020/21 revenue budget for capital financing costs, as reflected in the approved long term affordability strategy (report 89/20 refers) and thereafter updated within report 211/20 (Proposed Revisions to the Council's 2020/21 General Fund Revenue Budget) which utilises an estimated £600,000 saving within the loan charges budget. It should be noted that this is a significant drop in estimated borrowing from the capital budget position reflected in report 84/20 – a reduction of some £8.116m – however this is largely due to the decrease in expenditure of £7.187m noted in paragraph 7.3, as well as factoring in the additional capital grant and capital receipt income. Whilst no longer planned to be utilised in 2020/21, this borrowing will be incurred in the years thereafter, thereby having a neutral impact over the 5 years of the 2019/2024 Capital Plan.

- 7.5 It should also be noted that some £1.764m of the total borrowing in 2020/21 relates to departmental borrowing, where mechanisms are put in place to ensure the transfer of departmental revenue resources into the Council's capital financing costs budget.
- 7.6 The comprehensive review exercise of programmed expenditure for 2020/21 and beyond was undertaken by Directors, Service Leaders and Managers with a view to setting as realistic and achievable a capital monitoring budget as possible given the current circumstances with regard to the pandemic. This picture will however continue to evolve financially over the coming months as works restart on site for those projects that were already underway prior to the lockdown, and tenders for new works are put in place.
- 7.7 The delivery of this monitoring budget, including any further review that may be necessary as the pandemic changes and its impact becomes clearer, will be overseen by the CPMG and PBSG, with updates provided through regular capital monitoring reports to the Policy & Resources Committee.

## **8. DISTRIBUTION**

- 8.1 Subject to the approval of the Committee, the updated 2019/2024 Capital Plan (incorporating the 2020/21 capital budget) will be available on the Council's website and Intranet.

## **9. RISKS & UNCERTAINTIES**

- 9.1 The environment the Council is operating in as a consequence of the pandemic is highly uncertain and carries a high degree of risk, the main one being an underestimation of its financial impact on the 2019/2024 Capital Plan. Mitigation measures have been considered however, with services having reviewed their plan in detail, giving attention to both the financial and non-financial implications. Furthermore the strategy for dealing with the costs of the pandemic set out in this report provides options should new negative impacts on budgets emerge.
- 9.2 Another risk is that of significant further slippage, should a second wave of the pandemic occur and construction sites / infrastructure works are forced to close again. Whilst there is little can be done to fully mitigate such a risk as this would be largely outwith the Council's control, working in close partnership with contractors to ensure there is a continued and open dialogue on such matters will be essential.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 The financial implications for the Council arising from this report are as detailed in the body of the report.

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**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 2/2020

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List of Appendices:

**Appendix 1** – Updated 2019/2024 Capital Plan (General Fund)