

SPECIAL ANGUS COUNCIL

4 MARCH 2021

PROVISIONAL REVENUE & CAPITAL BUDGETS 2021/22 – 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 2021/22 has been provisionally estimated at £227.738 million, as set out in Table 1 in section 3;
- ii) Note the approach to the treatment of COVID-19 budget implications as set out in Section 4 of this report and the more detailed Report 72/21;
- iii) Note and approve the provisional revenue budget submission(s) as contained in the 2021/22 Provisional Revenue Budget Volume (Report 70/21) and summarised in Appendix 1 as the base budget;
- iv) Note and approve the budget issues (unavoidable cost/demand pressures and service investment), as detailed in columns C & D of the Summary Statement of Net Expenditure at Appendix 1 that have been added to service budgets;
- v) 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 2021/22;
- vi) 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;
- vii) Approve the provisional capital budget submission(s) as contained in the 2021/22 Provisional Capital Budget Volume (Report 71/21);
- viii) Note the high level projected funding gap and savings position for 2022/23 and 2023/24 as set out in Table 5 of the Report; and
- ix) Approve the process and principles set out in paragraph 16.5 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 THE ANGUS COUNCIL PLAN / COMMUNITY PLAN

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 updated 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 2021/22

- 3.1 Angus Council's Distributable Revenue Grant Support allocation for 2021/22 has been provisionally set at £227.738 million as detailed in Finance Circular (FC) 1/2021 issued on 1 February 2021. 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 2021/22 and has yet to be formally approved by Parliament. Due to the later than normal publication of the proposed Scottish Government Budget, the Parliamentary Stages 1-3 debates are scheduled between 25 February and 9 March 2021. 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. At a UK level the Chancellor is also scheduled to deliver his Budget on 3 March 2021 which may have implications for public service funding in Scotland.
- 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 in Finance Circular 1/2021.
- 3.4 For 2021/22 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:-
- £59 million revenue to support the final tranche of increased funding for the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours;
 - £90 million to compensate councils who choose to freeze council tax levels;
 - In addition to the £100 million available in 2020-21, a further £72.6 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. The additional £72.6 million for local government comprises a contribution to continued delivery of the real Living Wage (£34 million), uprating of free personal and nursing care payments (£10.1 million), implementation of the Carers Act in line with the Financial Memorandum of the Carers Bill (£28.5 million);
 - 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;
 - Continue provision in support of Teachers Pay (£156 million) and Pensions (£97 million);
 - £5.3 million for Barclay implementation costs; and
 - £50 million additional capital funding for Flood Risk schemes.

The 2021/22 Angus Council grant allocation compared to the 2020/21 grant allocation per the Local Government circular No. 2/2020 (there were a number of further circulars issued in 2020/21 but these all related to one-off COVID-19 grant funding) is set out in table 1 below :-

Table 1 – Angus Council Revenue Grant Allocation

	2021/22 £m	2020/21 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Distributable Revenue Funding (per Finance Circular and subsequent announcements)*	226.925	220.699	6.226	2.8
Funding yet to be distributed*				
Teachers Induction Scheme	0.376	0.000		
Discretionary Housing Payments	0.424	0.131		
School Child Burials	0.013	0.000		
Mental Health Officer	0.000	0.010		
Barclay Review Implementation	0.000	0.006		
TOTAL REVENUE FUNDING	227.738	220.846	6.892	3.1
Remove for Comparison Purposes				
Council Tax Incentive**	(1.727)	0.000		
Core Revenue Funding	226.011	220.846	5.165	2.3

* - 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.

** - A council tax freeze incentive scheme was included as part of the settlement, Angus Council's share of this is £1.727 million, equivalent of a 3% rise in band D equivalent Council Tax. This has been excluded from Table 1 for comparison of core grant to prior year figures.

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 2021/22. 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

	2021/22 £m	2020/21 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Core Revenue funding (per Table 1)	226.011	220.846	5.165	2.3
Less: additional funding to be earmarked in base budget expenditure:				
AHSCP:				
Free Personal & Nursing Care	(0.323)			
Carer's Act	(0.676)			
AHSCP - Living Wage	(0.806)			
Discretionary Housing Payments	(0.424)			
School Child Burials	(0.013)			
Revised Revenue Funding Total	223.769	220.846	2.923	1.3
Adjustments to Specific Grant in base expenditure:				
Criminal Justice Grant	(0.034)			
Gaelic Grant	0.000			
Pupil Equity Funding	(0.014)			
Early Learning & Childcare Expansion	(1.074)			
Revised Revenue Funding Total (excluding Council Tax freeze grant)	222.647	220.846	1.801	0.8

- 3.5 Table 2 shows that there is a net increase in the core revenue grant on a like for like basis of £1.801 million (0.8%). This increase is the grant available to the Council to meet cost increases and other budgetary pressures. The Council's previously calculated funding gap, as reported in the Medium Term Budget Strategy (MTBS) - report 288/19 refers - was a £3.193m (1.5%) reduction in government grant. The actual grant position for 2021/22 therefore represents a favourable movement of circa £5m. The council tax freeze incentive grant of £1.727m, if accepted, can also be used to help meet cost increases and budget pressures.
- 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 2021/22 won't be finalised until report 75/21 is considered by the Council and the Local Government Finance (Scotland) Order 2021 is approved by the Scottish 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.
- 3.7 Members are also referred to the separate report on COVID-19 budget implications and potential use of Scottish Government Fiscal Flexibilities (Report 72/21) which explains the position regarding separate funding for COVID-19 response and the approach to dealing with this as part of the 2021/22 budget setting process.

4. FORMULATION OF BASE BUDGETS & APPROACH TO COVID-19 BUDGET IMPACT

- 4.1 Service's base budgets have been prepared on an incremental basis using the 2020/21 budget (less any COVID-19 adjustments) 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 budgetary requirements for 2021/22. Base budgets have been reviewed for accuracy and adequacy through a technical validation process. The bulk of allowable budget growth in 2021/22 is made up of the annual cost of the incremental progression along pay scales, an estimated pay award increase for teachers and local government employees, and unavoidable commitments on PPP projects.
- 4.2 As outlined in Report 72/21 there is a considerable amount of uncertainty regarding the impact of COVID-19 on the Council's costs and more detail awaited on the funding which will be available to assist with such costs. The rapidly evolving nature of the pandemic and the national response and changing guidance associated with the response makes it impractical to set accurate COVID-19 budget plans covering more than a few months ahead. For this reason it is recommended that the Council set its budget for 2021/22 excluding the detail of potential costs and funding associated with COVID-19 and that these COVID-19 impacts form part of budget revisions during 2021/22 when there is sufficient information and clarity to adjust budgets with confidence.
- 4.3 This approach means that the 2021/22 budget members approve on 4 March 2021 will assume that all potential costs arising from COVID-19 can be funded from additional government grant, the COVID-19 Contingency Reserve and if required through the use of fiscal flexibilities with the detail of which budgets require initial adjustment to be provided in a follow up report to the May 2021 cycle of meetings. This approach to COVID-19 costs and funding, i.e. to be subject of a follow up report, will also allow any implications from the UK Budget and Scottish Budget finalisation to be included at that time. As Director of Finance I am confident for the reasons set out in Report 72/21 and based on all of the information currently available that the Council will have adequate funding and options available to cover any COVID-19 related costs during 2021/22 and that the 2021/22 budget can be set on the assumption that COVID-19 will have a neutral impact on the overall budget.
- 4.4 **Appendix 1** sets out a summary of the Council's net expenditure position for 2021/22 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 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). It is a statutory requirement for the Council to set a balanced budget meaning its budgeted expenditure must be matched by budgeted income. The amount of income (funding) the Council has available therefore determines how much can be spent.

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 2021/22 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 75/21).
- 6.2 As part of the finance settlement for 2021/22, the Scottish Government has provided funding to Councils who wish to implement a Council Tax freeze for 2021/22 which for Angus Council is the equivalent of a 3% increase and equates to £1.727 million. In the absence of the full information for 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, a shortfall of income over expenditure of £3.982 million will exist in 2021/22, of which £0.981 million is one-off. This assumes approval of the budget issues (columns C & D), the change programme savings proposals (column E), other adjustments (column F) and the Council Tax freeze incentive will be implemented (which will be decided at the Special Council meeting). In this regard, the grant funding received as an incentive to freeze Council Tax for 2021/22 of £1.727 million and the expected increase in the Council Tax base due to new houses coming on to the Council Tax register of £0.431 million has been included in the calculation.
- 6.3 The Change Programme underway across the Council is intended to deliver as much of the savings as possible for the 2021/22 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 61/21). The Change Programme is expected to deliver total savings of £5.165 million whereof £3.696 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 £1.465 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 reserve at 31 March 2020 was £1.330 million. This uncommitted reserve position was after allowing for a £4.880 million earmarked contingency fund to address any significant one-off issues which may arise during the course of the current and forthcoming financial years.
- 6.5 Angus Council revised the Revenue Budget for 2020/21 in September 2020 (Report 211/20 refers) to take account of the impact COVID-19 was expected to have on the Council's previously set budget. The general fund uncommitted reserve was also reviewed and the revised balance of this reserve was used to fund part of the funding gap identified in Report 211/20. A number of adjustments to the 2020/21 revenue budget and the Council's reserves position were agreed in Report 17/21 to the Policy & Resources Committee of 2 February 2021. The latest projected uncommitted General Fund Reserve is set out in Table 3 below:-

Table 3 – Uncommitted General Fund Reserve

	£m
Uncommitted Reserve at September 2020 after budget recast (report 211/20)	0.000
COVID-19 revised budget uplifts returned from Services (report 17/21 refers)	1.134
Projected underspend/savings on 2020/21 budget (after ring-fenced amounts - report 17/21 refers)	2.977
Additional COVID-19 budget recast uplifts to be returned from Services, identified since report 17/21	0.280
Estimated Uncommitted General Fund Reserve at March 2021	4.391

7 OTHER ISSUES PERTINENT TO THE 2021/22 REVENUE BUDGET

7.1 The following issues are also relevant to the consideration of the 2021/22 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 £51.530 million. The 2021/22 finance settlement included £72.6 million for Health and Social Care budgets and the estimated Angus share, £1.805 million, has been included in the £51.530 million in Appendix 1. The £51.530 million allocation is after assuming Angus Council's share of the total issues and pressures affecting the Angus Health and Social Care Partnership budget in 2021/22 of £3.696 million will be met from a combination of the additional Government resources provided and other savings to be identified by the IJB. Members are asked to note that the Angus IJB is due to meet on 24 February 2021 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), Additional Investment

Through the budget process a number of areas were identified where an unavoidable increase in budget is required in 2021/22 or where investment in service provision was considered to be necessary. These were discussed and reviewed in detail by the Policy & Budget Strategy Group (PBSG).

Excluding the IJB budget pressures a total of £2.634 million is recommended for approval, comprising £0.981 million one-off issues and £1.653 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 70/21) under the Budget Issues recommended for approval section.

The recommended additions to the service provisional revenue budgets in respect of these budget issues 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 - £3.274 million to cover the costs of an assumed pay increase for all staff including teachers and the impact of pay inflation on services provided by Tayside Contracts. Negotiations are underway between relevant parties around public sector pay awards and the outcome is highly uncertain. For the purposes of setting the 2021/22 budget the estimate used when preparing the previous MTBS, report 288/19, which was a 2% increase has been used. This estimate is well below what Trade Unions are seeking and therefore carries risk. The affordability of pay increases must be seen in the context of the limited increases in funding the Council has available and the many other unavoidable pressures on the budget. In the event that pay deals are settled at a level higher than has been budgeted for it will be necessary to identify adjustments elsewhere in the budget to pay for these.
- 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 2021/22 which cannot be managed via service budgets.
- A reduction on the Council's utilities costs budgets of £0.350 million has been included as part of the 2021/22 budget process. This has been calculated based on previous years actuals and although this carries a risk, there has also been a reduction in energy prices globally and internal consumption due to the impacts of COVID-19, so this is considered to be a low risk.

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 onwards. This proposed policy would be applied as a default or starting position unless there are exceptional circumstances. For 2021/22 the RPI at July 2020, of 3.0%, has been used across all Council services, except for the green waste bin charge which has been frozen at £30 for financial year 2021/22, which was agreed as part of the 2020/21 budget setting process.

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 net financial impact of the proposed review of charges has been reflected in column F of Appendix 1.

No increase in the charges managed by the Education & Lifelong Learning service are proposed in 2021/22, this means that the school meals, school lets and music tuition fees are recommended to remain the same as 2020/21. It is known from the recent increase in those entitled to Free School Meals (FSM) that a number of families have experienced increased financial hardship as a result of restrictions imposed by COVID-19. In addition a number of families are seeking additional financial support. Not all those experiencing hardship are eligible for FSM support and it is not considered appropriate to increase the cost of school meals at this time. No increase in music tuition is recommended to ensure that our music tuition offer remains affordable to all families. We are aware that in addition to members of community groups perhaps having experienced financial hardship, there will be little opportunity to fund-raise – something that can help with 'lets' throughout the year. The recommendation not to increase the cost of school meals, music tuition and 'lets' is based on these factors.

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:

- Corporate Items – Earmarked Grants to be allocated - £0.422 million of grant funding to be distributed by Government and will be added to Service budgets once distribution amounts are confirmed .
- Others - Specific Grants Netted off with Services - £1.107 million – increase in specific grants to be earmarked. These grants can only be spent on services they are provided for

7.6 Capital Financing Costs (Loan Charges)

The separate Long Term Affordability report (Report 76/21) outlines that the provision for capital financing costs within the 2021/22 revenue budget is considered sufficient to meet the commitments as contained in the Provisional Capital Budgets Volume (Report 71/21). However, it should be noted that any material amendment to the capital budget for 2021/22 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 2021/22.

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. Any impact from COVID-19 will not be fully evident in Council Tax collection rates for a few years and this figure may need to be reassessed in 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 2021/22. The £0.250 million has been included in the net expenditure summary at Appendix 1.

7.9 Joint Board / Committee Budgets

The 2021/22 revenue budget for the Tayside Valuation Joint Board was agreed at the Board meeting on 25 January 2021. Angus Council's budgeted share of the Joint Board's net expenditure is £0.810 million, excluding Electoral Registration Services which are budgeted for separately within Other Services.

The 2021/22 revenue budget for the Tayside Contracts Joint Committee has yet to be determined. However the Angus share of the total estimated surplus for 2021/22 is assumed to be £0.460 million. This may require revision once the Tayside Contracts budget has been set.

The appropriate allocations to Angus Council in respect of the Joint Board and Joint Committee 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 4 March 2021.

Table 4 – Balancing the 2021/22 Revenue Budget

	Ongoing £m	One-Off £m	Total £m
Gross Funding Gap (including Recommended Budget Issues)	10.320	0.981	11.301
Less Change Programme Savings - AHSCP	(3.696)	0.000	(3.696)
Less Remaining Change Programme Savings	(1.465)	0.000	(1.465)
Less Expected increase in Council Tax Base (Report 75/21)	(0.431)	(0.000)	(0.431)
Adjusted Gap Before Council Tax and Contributions to/from Council Reserves	4.728	0.981	5.709
Council Tax Freeze Incentive Grant	(1.727)	0.000	(1.727)
Contributions to/from Council Reserves *	(3.001)	(0.981)	(3.982)
Net Position (must be nil to achieve balanced budget)	Nil	Nil	Nil

* - the figure shown is what would be required as a contribution from the Council's Reserves to achieve a balanced budget position. Final decisions on contributions to/from Council Reserves will not be made until the Council meeting on 4 March 2021 and may therefore differ from the position shown in Table 4.

7.11 Common Good Budgets 2021/22

There is no requirement for the Council to set a budget for the Common Good Funds as part of the process to set the Council Tax. Officers are preparing a 3 year revenue budget and asset maintenance plan for the Common Good Budgets and intend to bring this forward for consideration at the Policy & Resources Committee in May 2021. Once agreed those Common Good Budgets will be published in the 2021/22 Final Budget Volume.

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.

Based on the latest information provided by project leads and the impact that the COVID-19 pandemic has had on all Services within the Council, the Change Programme has been significantly reduced but the Council Leadership Team is confident of achieving the targeted savings for 2021/22. Nevertheless there continues to be 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 2021/22 revenue budget that risk is considered to be low but should it arise the Council has reasonable contingency funds to manage that risk during 2021/22. Further commentary on the budget provision for Change Programme risks is given in the Council Tax report (Report 75/21)

- 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 reserves. The current contingency in the Council's reserves is £4.880 million and this is considered adequate given other provisions and the availability of uncommitted General Fund Reserves.

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.

The Council has also created a COVID-19 contingency reserve as part of the budget revision for 2020/21, report 211/20 refers. This is available for any un-funded budget issues which may arise due to the impact of COVID-19. Further commentary on this is included in Report 75/21.

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. The need to keep the budget under review and adjust when necessary is even more relevant at present due to the impact on costs and funding from COVID-19.

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 recent years. No budget issues have been identified through the 2021/22 budget process specifically related to Brexit. Further, no additional costs have been evident yet following the conclusion of the transition period on 31 December 2020. For budget setting purposes it is assumed that any costs that are evident will 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 I am content, based on the information and assurances provided by Change Programme project leads regarding savings delivery and my discussions with the Chief Executive and the Council Leadership Team, that the proposed 2021/22 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 2021/22.

8.7 Members will however appreciate that further risk lies beyond the 2021/22 budget in relation to possible further funding reductions in real terms which seem likely to apply and potential longer term implication for Council services arising from COVID-19. Further comment on this is given at Section 9 of this report but the key issue is to set a budget for 2021/22 that is realistic and which can provide flexibility for future years.

9 PROSPECTS FOR 2022/23 & 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 2021/22 budget setting process:-

- The Council needs to set a 2021/22 budget which recognises that significant financial challenges will continue beyond 2021/22, i.e. there is a need to be responsible, prudent and avoid taking short term decisions. The budget proposals for 2021/22 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 2021/22 budget strategy.
- Using the Medium Term Budget Strategy (Report 74/21 refers) and the most up to date Change Programme estimates the position for 2022/23 and 2023/24 is currently projected to be as follows:

Table 5 – 2022/23 and 2023/24 Estimated Funding Gap

	2022/23 £m	2023/24 £m	2 Year Total £m
Projected Funding shortfall	9.732	9.536	19.268
Adjustment for previous years funding gap dealt with on a one-off basis (note 1)	3.001	1.000	4.001
Sub-total	12.733	10.536	23.269
Change Programme savings	(10.102)	(8.637)	(18.739)
Less 3 year General Fund Reserves Drawdown Strategy	(1.000)	0.000	(1.000)
Estimated funding gap still to be addressed (note 2)	1.631	1.899	3.530

Note 1 – this figure assumes full use of the Council Tax incentive grant and therefore no increase in Council Tax for setting the 2021/22 budget, as this has still to be determined so is shown for illustrative purposes only. The figure is also subject to change depending on final decisions regarding the use of Council Reserves.

Note 2 – remaining funding gap in 2022/23 and 2023/24 is based on no Council Tax increase.

9.2 Table 5 shows that a sizeable 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 2022/23 & 2023/24 of 3.5% this would yield around £4.0m in additional income which would be sufficient to close the remaining gap identified. In the event that Council wishes to pursue lower Council Tax increases in each of the next 2 financial years additional savings in budgets may need to be found beyond those currently targeted. These matters will be considered further in the next update to the Council's Medium Term Budget Strategy (September 2021). Members are asked to note the high level projected funding gap and savings position for 2022/23 and 2023/24 as set out in Table 5 in setting the 2021/22 revenue budget.

9.3 During the course of preparing the 2021/22 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:-

- COVID-19 – the longer term implications from the pandemic are still emerging but it seems probable that demand and therefore costs for some services may increase e.g. mental health support, additional support for children’s education, changes in adult care services, etc. These issues may take time to emerge and additional funding may be available to support such pressures in the short term during 2021/22.
- 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 66/21, “Devolved Budget to Angus Health and Social Care Integration Joint Board 2021/22”. 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 67/21. The ANGUSalive Finance & Audit Sub Committee considered potential budget allocations from the Council on 29 January 2021, although the full Board will only consider the final budget proposal at their meeting of 26 February 2021 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 74/21) 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 4 March 2021 is contained in this report and the under-noted report: -

Report 70/21 – 2021/22 Provisional Revenue Budget Volume

10.2 This Volume contains a net expenditure summary covering each Service’s budget for 2021/22 and a description of the proposed budget issues as they affect each service area.

11 BACKGROUND – GENERAL FUND CAPITAL BUDGET 2021/22

11.1 Capital budget preparation guidance was issued by the Director of Finance outlining the procedures to be followed in the preparation of the 2020/2025 Capital Plan and 2021/22 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 – Budget Strategy Meetings

Policy & Budget Strategy Group	19 November 2020, 18 December 2020, 21 January 2021, 10 February 2021
Shadow Budget Group	26 November 2020, 22 December 2020, 27 January 2021, 11 February 2021

- 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 76/21 on the long-term affordability of the General Fund capital plan provides more detail of the measures which have been developed.
- 11.4 With the capital budget for 2021/22 having been prepared within the context of the ongoing COVID-19 pandemic, this has included consideration of the fiscal flexibilities, the package of measures identified by the Scottish Government for local authorities to utilise – should doing so be deemed prudent and appropriate – in order to address the funding pressures faced due to the pandemic. A separate report on the budgetary impact from COVID-19 and potential use of fiscal flexibilities has been prepared for consideration at the Special Council meeting on 4 March 2021 (Report 72/21 refers).

12 CAPITAL RESOURCES

12.1 Background

The 2020/2025 Capital Plan, incorporating the 2021/22 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 2020/2025 Capital Plan has been prepared in this context and further information relating to the Prudential Code is contained in Report 77/21.

12.2 2021/22 Local Government Finance Settlement

Finance Circular 1/2021 (issued on 1 February 2021) provided details of funding allocations for 2021/22, these are provisional. No definitive information is available for 2022/23 onwards. Table 7, below, details Angus Council's capital support for 2021/22:

Table7 – 2021/22 Finance Settlement

Funding Source	2021/22 £m
General Capital Grant (including Arbroath Flood Prevention)	10.448
Specific Capital Grant - Cycling, Walking and Safer Streets	0.509
Total Support for Capital	10.957

- 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) requires 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 2021/22 is presented at agenda item 5(l) of this meeting (report 73/21) refers.
- 13.2 A thorough exercise has been carried out by Finance officers to assess the long-term affordability of the 2020/2025 Capital Plan. Full details of that assessment are provided in report 76/21.

13.3 In preparing the 2021/22 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 71/21):

- £4.0 million for roads capitalised maintenance
- £300,000 for property capitalised maintenance
- £100,000 for ground maintenance machinery replacement programme
- £489,000 for general vehicle replacement programme
- £250,000 for schools information and communication equipment
- £170,000 for IT infrastructure and hardware refresh programme
- £200,000 for Economic Development property portfolio improvements
- £140,000 for replacement boundary fence at Sandy Sensations, Carnoustie
- £410,000 for boiler replacements in council buildings including schools
- £115,000 for replacement and upgrading of electric distribution boards in council buildings including schools
- £215,000 for replacement and upgrading of electric heating systems in council buildings including schools
- £120,000 for Arbroath harbour cathodic protection
- £285,000 for reservoir infrastructure repairs
- A further £37.1 million for the replacement of Monifieth High School (Angus Schools for the Future) - £10.0 million had already been allowed for in the 2019/2024 Capital Plan.

13.4 The long-term affordability also allows for a total general contingency level of £4.473 million.

Replacement of Monifieth High School (Angus Schools for the Future)

13.5 At an estimated gross capital cost of £50.0 million (reducing to some £47.1 million once anticipated developer's contributions and other funding has been taken into account) and spread over financial years 2021/22 to 2026/27, the replacement of Monifieth High School has dominated the development of the 2020/2025 Capital Plan.

13.6 The Scottish Government has confirmed an intention to support the project as part of its Learning Estate Investment Programme (LEIP) but as yet no further details on grant funding to support the project has been confirmed. For the purposes of this report it has been assumed that grant support to be provided to the Council will be revenue in nature and will be for facilities management and lifecycle maintenance costs on the new facility. A broad assumption that this grant support will equate to 50% of the upfront build costs has been made in line with LEIP national modelling. Furthermore, in order for the council to receive the full grant it has been allocated, a number of key outcomes will require to be met with regard to condition of the building, energy efficiency, digital enablement and economic growth. There is, therefore, an element of risk with regard to the delivery of these outcomes and thus securing all of the available funding which will be addressed in future committee reports.

13.7 What is known with certainty however is that none of this grant is available to finance the upfront capital cost of the project – the full £50.0m million (gross cost) must be borne in its entirety by Angus Council, along with the associated loan charges costs that this will incur. Report 76/21 provides further detail on the impact of this project on the long affordability of the capital programme, as well as the assumptions that have been necessary regarding the loan charges revenue budget going forward

14 2020/2025 CAPITAL PLAN (INCORPORATING THE 2021/22 CAPITAL BUDGET)

14.1 The 2020/2025 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 five 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 2021 and that which is not anticipated to be legally committed by 31 March 2021.

14.2 **Appendix 2** provides a summary of the provisional directorate capital budgets for 2021/22 as contained in the Provisional Capital Budget Volume and shows an estimated net capital expenditure of £26.321 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 £11.170 million in 2021/22.

15 CAPITAL BUDGET DOCUMENTATION

15.1 The capital budget information required for the Special Budget Meeting on 4 March 2021 is contained in both this report and report 71/21 – Provisional Capital Budget Volume. The budget volume contains details of each directorate / service budget submission for 2021/22 and their overall capital plan submission for the period 2020/2025.

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 2021/22 has still to be approved by the Scottish Parliament. The timetable for agreeing the Scottish Budget is far later than normal this year due to the impact of COVID-19 and despite the Council setting its budget later than in previous years there still remains 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 1 February 2021. 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 a Scottish level there remains a possibility of further changes as a consequence of the UK Budget announcements scheduled for 3 March 2021.

16.4 There also remains uncertainty regarding additional COVID-19 funding to the Council from the Scottish Government in both the 2020/21 and 2021/22 financial years. At the time of writing this report additional sums at a national level of £275m in 2020/21 and £259m in 2021/22 have been announced as general funding to support Councils with COVID costs but the allocation of these funds is subject to confirmation by COSLA and Scottish Government.

16.5 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 4 March 2021;

(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 Reserves to balance the 2021/22 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 2021/22 Band D Council Tax which Council will set on 4 March 2021; 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 1/2021 issued on 1 February 2021 by the Scottish Government;
- Letter of 28 January 2021 from the Cabinet Secretary for Finance, Economy and Fair Work to COSLA President

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List of Appendices:

Appendix 1 - Statement of Net Expenditure

Appendix 2 - Provisional Capital Programme (Summary)