

SPECIAL ANGUS COUNCIL

3 MARCH 2022

PROVISIONAL REVENUE & CAPITAL BUDGETS 2022/23 – 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 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 2022/23 has been provisionally estimated at £249.542 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;
- iii) Note the other issues pertinent to the budget and the key assumptions and risks as set out in Sections 7 and 8 respectively of this report;
- iv) Note and approve the provisional revenue budget submission(s) as contained in the 2022/23 Provisional Revenue Budget Volume (Report 64/22) and summarised in column B of Appendix 1 as the base budget;
- v) Note and approve the budget issues (unavoidable cost/demand pressures and service investment), as detailed in the Provisional Revenue Budget Volume (Report 64/22) and summarised in columns C & D of the Summary Statement of Net Expenditure at Appendix 1 that have been added to service budgets;
- vi) Note and approve the Change Programme Savings, including the target led service contraction savings as detailed in the Provisional Revenue Budget Volume (Report 64/22) and summarised in column E of the Summary Statement of Net Expenditure at Appendix 1 that have been deducted from the Provisional Base Budget 2022/23;
- vii) Note and approve the review of charges and other adjustments shown in columns F & G of the Summary Statement of Net Expenditure at Appendix 1 that have been added to / removed from service budgets;
- viii) Approve the provisional capital budget submission(s) as contained in the 2022/23 Provisional Capital Budget Volume (Report 65/22);
- ix) Note the high level projected funding gap and savings position for 2023/24 and 2024/25 as set out in Table 5 of the Report.

2. ALIGNMENT TO THE COUNCIL 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. 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 2022/23

- 3.1 Angus Council's Distributable Revenue Grant Support allocation for 2022/23 has been provisionally set at £237.930 million as detailed in Finance Circular (FC) 9/2021 issued on 20 December 2021. Subsequent announcements have increased this figure by an estimated £3.028 million to £240.958 million.
- 3.2 Members will be aware that the local government grant settlement forms part of the Scottish Government's overall budget for 2022/23 and stage 3 was passed through Parliament on 10 February 2022.
- 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 9/2021.
- 3.4 For 2022/23 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 worth over £12.5 billion and includes:-
- £174.5 million for continued delivery of the real Living Wage within Health and Social Care;
 - £15 million for uprating of free personal and nursing care payments;
 - £20.4 million for implementation of the Carers Act;
 - Additional investment of £124 million to provide care at home;
 - £20 million to support Interim Care
 - An additional £200 million to support investment in health and social care;
 - £145 million for Additional Teachers and Support Staff;
 - Maintained funding for 100 day commitments including the removal of curriculum and music tuition charges and expanded School Clothing Grant; and
 - An additional £64 million revenue that was not identified on the face of the budget as well as £30 million of capital funding already identified to facilitate the expansion of Free School Meals.

The 2022/23 Angus Council grant allocation compared to the 2021/22 grant allocation per the Local Government circular No. 2/2021 is set out in table 1 below :-

Table 1 – Angus Council Revenue Grant Allocation

	2022/23 £m	2021/22 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Distributable Revenue Funding (per Finance Circular and subsequent announcements)*	237.930	226.925	11.005	4.8
Adjustment to Discretionary Housing Funding Arrangements	0.000	(0.675)		
Additional Social Work Capacity in Adult Services	0.528	0.000		
Additional <u>One-Off</u> Funding Announced at Stage 2 of Budget Bill	2.505	0.000		
Revised Revenue Funding	240.963	226.250	14.713	6.5
Funding yet to be distributed*				
Teachers Induction Scheme	0.374	0.376		
Angus Council New Funding				
Child Bridging Payments	1.480	0.000		
Removal of Curriculum Charges	0.167	0.000		
Removal of Music Tuition charges	0.251	0.000		
Increase in Pupil Equity Fund	0.209	0.000		
Free School Meals Expansion	0.928	0.000		
Free School Meals Holiday Provision	0.479	0.000		
Increase in Gaelic Education Funding	0.002	0.000		
Education Psychologists	0.009	0.000		
Total Angus Council New Funding	3.525			
AHSCP New Funding				
New Health & Social Care & Mental Health Funding	4.680	0.000		
Total Estimated Funding Yet to be Distributed	8.579	0.376		
Core Revenue Funding	249.542	226.626	22.916	10.1

* - 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 2022/23. 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

	2022/23 £m	2021/22 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Core Revenue funding (per Table 1)	249.542	226.626	22.916	10.1
Less: additional funding to be earmarked in base budget expenditure:				
Angus Council				
Additional Teachers & Support Staff	(3.084)			
National Trauma Training	(0.050)			
Scottish Disability Assistance – Child Disability Payment Administration	(0.072)			
Mental Health Recovery & Renewal	(0.084)			
Seatbelts on School Transport	(0.003)			
School Clothing Grant	(0.118)			

Reduction in previously ring-fenced funding	0.089			
Funding for new costs yet to be distributed (as table 1 above)	(3.525)			
Angus Council Total to be Earmarked	(6.847)			
AHSCP				
Free Personal & Nursing Care	(0.484)			
Carer's Act	(0.486)			
Living Wage	(4.161)			
Interim Care	(0.480)			
Care at Home (Winter Planning Care)	(2.978)			
Additional Social Work Capacity in Adult Services	(0.528)			
Funding yet to be distributed (as per table 1 above)	(4.680)			
AHSCP Total to be Earmarked	(13.797)			
Total Additional Funding to be Earmarked	(20.644)			
Adjusted Revenue Funding Total	228.898	226.626	2.272	1.0
Adjustments to Specific Grant in base expenditure:				
Early Learning & Childcare Expansion	(0.455)			
New – ELC Deferral Pilot	(0.700)			
Revised Revenue Funding Total	227.743	226.626	1.117	0.5

- 3.5 Table 1 shows that a very large increase in government grant funding of £23 million (10%) has been applied for financial year 2022/23 although £2.5 million of that is one-off. This is a significant level of investment. However it is important to be clear that almost all of that additional funding is either ring-fenced or is for specific additional spending commitments the Council must implement such as employing additional teachers and the expansion of free school meals. The majority of the increased grant (£13.8m) must be passed on to the Angus Health and Social Care Partnership for the purposes shown.
- 3.6 Table 2 shows that after the announcement of additional one-off funding for local government as part of the Stage 2 Budget Bill, there is now a net increase in the core revenue grant on a like for like basis of £1.117 million (0.5%). This small remaining increase in grant is all that is available to the Council to help offset rising costs, such as energy and pay, and other budgetary pressures and means the Council must reduce spending or increase income (including Council Tax) in other areas of its budget in order to achieve a balanced position.
- 3.7 In her letter to the COSLA President and Council Leaders of 9 December 2021 the Cabinet Secretary for Finance referred to levels of Council reserves and encouraged “all Councils to consider whether current levels of General Fund Reserve balances are an efficient use of public funds at this time”. This implies a possible expectation from Government that Councils will use reserves to support funding gaps arising from the grant settlement. Whilst reserves are always considered as part of budget setting they are only a one-off solution and not a substitute for ongoing funding.
- 3.8 The Council's previously calculated funding gap, as reported in the Medium Term Budget Strategy (MTBS) - report 339/21 refers - was based on a £1.402 million (0.5%) reduction in government grant. The actual grant position for 2022/23 therefore represents a favourable movement of £2.519 million but it must be cautioned that this more favourable position is based on additional funding of £2.505 million which is considered by Scottish Government to be one-off for 2022/23 only. The 2022/23 grant figures shown are affected (reduced from what they otherwise would have been) by the top slicing of £5 million nationally as the first tranche of local government's funding contribution toward the national Redress Scheme (for survivors of historical child abuse in care). The impact of this top slicing on Angus Council's grant position is circa £0.100 million.
- 3.9 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 2022/23 won't be finalised until report 67/22 is considered by the Council and the Local Government

Finance (Scotland) Order 2022 is approved by the Scottish Parliament (due to take place 24 February 2022). 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 & APPROACH TO COVID-19 BUDGET IMPACT

- 4.1 Service's base budgets have been prepared on an incremental basis using the 2021/22 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 2022/23. Base budgets have been reviewed for accuracy and adequacy through a technical validation process. The bulk of allowable budget growth in 2022/23 is made up of the annual cost of the incremental progression along pay scales, and unavoidable commitments on PPP projects.
- 4.2 As outlined in Reports 285/21 and 341/21 the medium to long term implications of the pandemic are still emerging and may take years to be fully understood. There is still a considerable amount of uncertainty regarding the future impact of COVID-19 on the Council's costs such as additional cleaning and ventilation and if any funding is to continue as long as these additional requirements are to be undertaken by the Council. For this reason it is being recommended that the Council set its budget for 2022/23 excluding the detail of potential costs and funding associated with COVID-19 and that these COVID-19 impacts form part of budget revisions during 2022/23 when there is sufficient information and clarity to adjust budgets with confidence.
- 4.3 This approach means that the 2022/23 budget members approve on 3 March 2022 will assume that all potential costs arising from COVID-19 can be funded from additional government grant held in reserves or the COVID-19 Contingency Reserve. This is an area of risk but from the information available at this time is considered to be a manageable risk.
- 4.4 **Appendix 1** sets out a summary of the Council's net expenditure position for 2022/23 based on the provisional base budgets, budget issues and savings 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 2022/23 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 67/22).
- 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, a shortfall of income over expenditure of £6.450 million will exist in 2022/23, of which £0.875 million is one-off. This assumes approval of the budget issues (columns C & D), the change programme savings proposals (column E), review of charges (column F) and other adjustments (column G). 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 Council Tax base due to new houses coming on to the Council Tax Register of £0.600 million.
- 6.3 The Council's Change Programme is again intended to deliver as much of the savings as possible for the 2022/23 budget and beyond, but for 2022/23 percentage savings targets for services were used as part of the "service contraction" element of the Change Programme. All of the savings proposals are detailed in the Provisional Revenue Budget Volume (report 64/22). Further details

of the Change Programme are shown in the Finance and Change Plan (Report 55/22). The Change Programme including the service contraction savings are expected to deliver total savings of £6.801 million whereof £2.138 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 service contraction savings of £2.311 million have been deducted from the relevant Service budget in Appendix 1 with the remaining Change Programme savings of £2.352 million shown as a separate line in Appendix 1. The remaining savings will, as far as possible, be allocated to individual Service budgets for production of the Council's Final Revenue Budget Volume in June.

- 6.4 The audited General Fund uncommitted reserve at 31 March 2021 was £6.053 million. This uncommitted reserve position was after allowing for a £4.705 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 approved a number of funding requests for COVID response, recovery and renewal along with an updated reserve strategy for the council, reports 213/21, 285/21 and 341/21 refer. These reports revised the audited General Fund uncommitted reserve down to zero. The latest projected uncommitted General Fund Reserve is set out in Table 3 below:-

Table 3 – Uncommitted General Fund Reserve

	£m	£m
Uncommitted Reserve at September 2021 after report 285/21		0.000
2020/21 Audit Adjustment – correction of error		(0.038)
COVID-19 revised budget uplifts agreed per report 215/21 returned from Services (included in Corporate Monitoring report 20/22)		0.188
Projected underspend/savings on 2021/22 budget (after ring-fenced amounts - report 20/22 refers)		1.672
Balance of IJB Reserves Returned		0.334
Inflationary pressures and budget risks earmarked for 2021/22 no longer required in full (Report 285/21) after adjusting for:-		
- Tayside Contracts School Meal reduced income 2021/22	1.000	
- Tayside Contracts Additional Costs of 2021/22 Pay Award	(0.259)	
	(0.280)	0.461
Estimated Uncommitted General Fund Reserve at March 2022 Prior to Consideration of Other Adjustments to Reserves (see Report 67/22)		2.617

7 OTHER ISSUES PERTINENT TO THE 2022/23 REVENUE BUDGET

- 7.1 The following issues are also relevant to the consideration of the 2022/23 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 £65.306 million. The 2022/23 finance settlement and subsequent announcements included £575.900 million for Health and Social Care budgets and the estimated Angus share, £13.797 million, has been included in the £65.306 million in Appendix 1. The £65.306 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 2022/23 of £2.138 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 23 February 2022 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), Other Adjustments

Through the budget process a number of areas were identified where an unavoidable increase in budget is required in 2022/23 or where investment in service provision was considered to be necessary. These were discussed and reviewed in detail by officers and the Policy & Budget Strategy Group (PBSG).

Excluding the IJB budget pressures a total of £2.505 million is recommended for approval, comprising £0.875 million one-off issues and £1.630 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 64/22) 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 columns 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 2022/23 - £2.800 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 and Angus Alive. Negotiations are underway between relevant parties around public sector pay awards and the outcome is highly uncertain. For the purposes of setting the 2022/23 budget the estimate used when preparing the previous MTBS, report 339/21, which was a 1.5% increase has been used, adjusted for the revised impact the 2021/22 pay increase now has on the 2022/23 starting base figures. This estimate is well below what Trade Unions are provisionally seeking and therefore carries a significant risk.

The affordability of pay increases must be seen in the context of the very limited increases in grant funding the Council has available and the many other unavoidable cost pressures on the budget such as the national insurance increase. The pay award provision at 1.5% (£2.8 million) would require an increase in Council Tax of nearly 5% just to fund that single cost pressure in the Council's budget.

In the event that pay deals are settled at a level higher than has been budgeted for and assuming no additional funding support for this is provided by the Scottish Government it will be necessary to identify compensating savings elsewhere in the Council's budget to pay for these. These compensating savings will inevitably have to include further reductions in staffing since this is the Council's largest cost.

- Pay Award 2021/22 – Appendix 1 continues to show a separate line and budget for the 2021/22 pay increases, this is due to the late agreement on the LGE pay increase and due to the fact that the teachers and Chief Officer pay deals have still not been agreed. This figure has been increased due to the impact of the pay deal being higher than what had previously been budgeted which has meant an increase on Angus Council pay costs but also a significant increase in our share of Tayside Contracts pay costs. These higher than budgeted increases are due to the way the pay deal was structured for 2021/22 with staff on the lowest grades receiving increases above the 2% which had been budgeted for. It should also be noted that an estimate for teachers pay increases has been calculated on the latest offer that has been made, which is an equivalent of 1.4% in year 2021/22 but this is an equivalent 2% increase to the 2022/23 base. This latest offer has been rejected by teaching unions.
- National Insurance Increase – Appendix 1 shows a £1.438 million budget addition for 2022/23, this is the estimated cost to the Council based on the 1.25 % increase in National Insurance announced during 2021/22 (the social care levy), which takes effect from 1 April 2022. This is another significant budget issue, which the Council has no control over and for which no specific additional funding from the Scottish Government has been provided.
- Other Services includes a reduced provision of £0.300 million for additional burdens. This provision will be used if required to meet any budget issues arising during 2022/23 which cannot be managed via service budgets. Also included in Other Services are the Council Tax Reduction Scheme budget reduced for 2022/23 by £0.183 million, as per circular 9/2021; adjustment for Discretionary Housing funding arrangement £0.676 million, Council is required to budget for the income which pays for these separately in 2022/23; Interest on Revenue Balances, based on the current rate of interest this budget has been reduced by £0.125 million.
- A significant increase on the Council's energy costs budget of £1.035 million is being allowed for as part of the 2022/23 budget process. There is significant uncertainty regarding the Council's future energy costs with both price and consumption being difficult to predict.

In relation to energy consumption it is unclear whether COVID related ventilation requirements will continue for all of 2022/23 and in particular the winter period. Increased natural ventilation has been coupled with an increase in levels of heating to try to improve user comfort particularly in schools but this means much higher energy use than would otherwise be the case. The progress of the Council's agile working programme is also a factor – it is expected that a continuation of home working on a larger scale than before the pandemic will require fewer Council buildings which should reduce consumption but how quickly those reductions can happen is difficult to gauge.

In relation to energy prices although the Council has some protection from the volatility in world energy prices because of the forward purchasing strategy adopted by Scottish Procurement who buy energy for the whole of the Scottish public sector it is not immune from price rises. Final pricing guidance from Scottish Procurement will not be available until after the Council has set its 2022/23 budget so pricing assumptions based on the latest guidance have had to be used.

Taking all of the above mentioned uncertainty into account and recognising that the Council needs to re-double its efforts to reduce energy consumption moving forward an increase of £1.035 million has been applied on the 2021/22 budget for energy costs. An initial estimated increase of £1.5 million has been calculated by the Council's energy team but this has been reduced on the assumption that consumption can be reduced and that some additional costs relating to early years provision should be charged against the ring-fenced grant provided for early years provision. Clearly this means that this issue has to be considered as a high risk area in the Council's 2022/23 budget.

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 2022/23 the RPI at July 2021, of 2.5%, has been used across all Council services, except for the green waste bin charge which has been frozen at £30 for financial year 2022/23, which was agreed as part of the 2020/21 budget setting process. Members are referred to the separate reports on the agenda in relation to review of charges proposals including those for the AHSCP and ANGUSalve which are proposing a different approach than the 2.5% increase.

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 increases in charges managed by the Education & Lifelong Learning service are proposed in 2022/23, this means that school meals charges are recommended to remain the same for 2022/23 despite increasing costs for food and supplies. 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 COVID-19. In addition a number of families are continuing to seek additional financial support. Not all those experiencing hardship are eligible for FSM support and the Director of Education and Lifelong Learning it therefore recommending not to increase the cost of school meals at this time.

7.5 Specific Grants Netted off within Services

As part of the Scottish Budget announcements, Angus Council's share of Early Learning & Childcare Expansion Specific Grant funding increased by £0.455 million and the Council are also part of the new Early Learning & Childcare Deferral Pilot Scheme and have been awarded £0.700 million to meet the costs of our participation in the pilot.

7.6 Capital Financing Costs (Loan Charges)

The separate Long Term Affordability report (Report 68/22) outlines that the provision for capital financing costs within the 2022/23 revenue budget is considered sufficient to meet the commitments as contained in the Provisional Capital Budgets Volume (Report 65/22). However, it should be noted that any material amendment to the capital budget for 2022/23 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 2022/23.

7.7 Surplus Local Tax Income & MOD Council Tax Income

A budgeted allowance of £0.234 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 2022/23 revenue budget for the Tayside Valuation Joint Board was agreed at the Board meeting on 24 January 2022. Angus Council's budgeted share of the Joint Board's net expenditure is £0.814 million, excluding Electoral Registration Services which are budgeted for separately within Other Services.

The 2022/23 revenue budget for the Tayside Contracts Joint Committee has yet to be determined. However the Angus share of the total estimated surplus for 2022/23 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 Fiscal Flexibilities

Members may recall from the 2021/22 budget setting process and in particular Report 72/21 that what were termed fiscal flexibilities were being made available to Councils as a means of providing flexibility to deal with the cost implications arising from COVID-19. The flexibilities were suggested as a solution at a time when additional funding for COVID-19 was more limited and were something of a fall back solution in the absence of sufficient additional funding. While the flexibility to use capital receipts differently and defer loans fund repayments remain available to the Council these can only be used towards COVID-19 costs (rather than other budget pressures) and since the Council has yet to fully spend all of the previous funding provided for COVID-19 (Report 285/21 refers) there is currently no basis for use of these flexibilities in setting the 2022/23 budget. A third fiscal flexibility in relation to service concession payments is still under discussion with Scottish Government but the outcome of those discussions will not be concluded until well after the Council has set its budget.

7.11 Loans Fund Review

In setting the 2020/21 revenue budget the Council agreed that a saving of £2 million be assumed from a review of the Council's Loan Fund debt. Implementation of this review was postponed as part of the 2021/22 budget setting process due to the uncertainty which existed at that time over whether the Council would need to use the fiscal flexibilities referred to in paragraph 7.10 above. That uncertainty has now been removed so details of how the Loans Fund Review will be implemented will be brought forward to the normal Council meeting on 10 March 2022 for formal approval.

7.12 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 3 March 2022.

Table 4 – Balancing the 2022/23 Revenue Budget

	Ongoing £m	One-Off £m	Total £m
Gross Funding Gap (including Recommended Budget Issues)	13.062	0.875	13.937
Less Change Programme Savings – Service Contraction	(2.311)	0.000	(2.311)
Less Change Programme Savings – AHSCP	(2.138)	0.000	(2.138)
Less Remaining Change Programme Savings	(2.352)	0.000	(2.352)
Less Additional Income from Review of Charges	(0.086)	0.000	(0.086)
Less Expected increase in Council Tax Base (Report 67/22)	(0.600)	0.000	(0.600)
Adjusted Gap Before Council Tax and Contributions to/from Council Reserves	5.575	0.875	6.450
Potential Council Tax Increase	TBC	TBC	TBC
Contributions to/from Council Reserves	TBC	TBC	TBC
Net Position (must be nil to achieve balanced budget)	TBC	TBC	TBC

7.13 Common Good Budgets 2022/23

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. It should be noted however that Agenda Item 5(o), report 82/22 seeks Council approval for a small number of Common Good property maintenance and improvement projects in 2022/23 funded from the respective Common Good funds.

Officers are also preparing an updated 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 after the Council elections. Once agreed those Common Good Budgets will be published in the 2022/23 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 fully updated. 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 but there is also a possibility the targeted savings in some areas could be exceeded. At the point of setting the 2022/23 revenue budget the overall risk to delivery of 2022/23 Change Programme savings target is considered to be low but should it arise the Council has reasonable contingency funds to manage that risk during 2022/23. Further commentary on the budget provision for Change Programme risks is given in the Council Tax report (Report 67/22).

Although we continue to have the Change Programme as the primary route for savings being identified and delivered it has been necessary as part of the 2022/23 budget setting process to also ask Service Directors to submit target led savings proposals, which are contained within the Change Programme as service contractions. Full details of these savings are contained within the Provisional Revenue Budget Volume (Report 64/22).

- 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 but for financial year 2022/23 inflation is a far greater area of risk and uncertainty than has been the case in the life of Angus Council. 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). Given the current inflation rate and the possibility of this increasing further, there is a potential for higher risks around Service budgets not being able to contain such inflation and this may require corrective action and possibly the use of Council reserves and contingencies during 2022/23.

In recognition of the sizeable risks to the Council's budget related to pay awards, energy costs and general inflation officers are recommending that a sum of £0.5 million be earmarked in the Council's General Fund Reserve for such risks during 2022/23.

The effects of inflation on budgets will be monitored closely and reports to the Policy & Resources Committee during the year as part of the Council's normal revenue & capital monitoring process will highlight any areas of concern.

- Contingencies

Another critical element of the Council's management of budget risk is the availability of contingencies both within the budget and in reserves. A contingency in the Council's reserves of £4.7 million is being recommended for the 2022/23 budget and this is considered adequate.

Within the revenue budget itself the Council holds a contingency sum of £0.300 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 contingency is currently £2.188 million with £0.265 million earmarked as lost income funding for ANGUSalve leaving an uncommitted balance of £1.923 million available. Further commentary on this is included in Report 67/22 which proposes retaining £1.750 million in the COVID-19 contingency reserve for 2022/23.

- 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 inflation and 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 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 2022/23 revenue budget although extremely challenging 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 2022/23.

8.6 Members will however appreciate that further risk lies beyond the 2022/23 budget in relation to possible further funding reductions in real terms which seem likely to apply and potential longer term implications 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 2022/23 that is realistic and which can provide flexibility for future years.

9 PROSPECTS FOR 2023/24 & 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 2022/23 budget setting process:-

- The Council needs to set a 2022/23 budget which recognises that significant financial challenges will continue beyond 2022/23, i.e. there is a need to be responsible, prudent and avoid taking short term decisions. The budget proposals for 2022/23 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 2022/23 budget strategy.
- Using the Medium Term Budget Strategy (Report 339/21 refers) and the most up to date Change Programme estimates the position for 2023/24 and 2024/25 is currently projected to be as follows:

Table 5 – 2023/24 and 2024/25 Estimated Funding Gap

	2023/24 £m	2024/25 £m	2 Year Total £m
Projected Funding shortfall	11.367	13.502	24.869
Adjustment for previous years funding gap dealt with on a one-off basis (note 1)	5.575	2.000	7.575
Adjustment for additional grant funding provided on a one-off basis (note 2)	2.505	0	2.505
Sub-total – Total Funding Gap	19.447	15.502	34.949
Change Programme savings	(6.053)	(7.256)	(13.309)
Less 3 year General Fund Reserves Drawdown Strategy	(2.000)	(1.000)	(3.000)
Estimated funding gap still to be addressed (note 3)	11.394	7.246	18.640

Note 1 – the 2023/24 figure assumes no increase in Council Tax is applied in setting the 2022/23 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 – the Scottish Government has stated that the additional funding announced as part of the Stage 2 Budget Bill debate is one-off. This position could change as part of the Spending Review but for now we have to plan on a worst case basis for what we have been told regarding this funding.

Note 3 – remaining funding gap in 2023/24 and 2024/25 is based on no Council Tax increase being applied in either of those years.

9.2 Table 5 shows that a sizeable potential funding gap remains to be bridged into future years. It is however important to note the role that Council Tax increases can play in reducing that gap. For example if Council Tax increased in 2022/22, 2023/24 & 2024/25 by 3% this would yield around £5.2m in additional income. The Council may wish to pursue higher Council Tax increases in

each of the next 3 financial years but these increases would need to be around 11% p.a. on average if the Council were to rely only on Council Tax increases to balance future years budgets. These matters will be considered further in the next update to the Council's Medium Term Budget Strategy (September 2022). Members are asked to note the high level projected funding gap and savings position for 2023/24 and 2024/25 as set out in Table 5 in setting the 2022/23 revenue budget.

9.3 During the course of preparing the 2022/23 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 – although the medium to longer term implications from the pandemic are still emerging and may take months if not years to be fully understood 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 required to support such pressures over the longer term and during 2022/23.
- 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 is devolved to the Angus Integration Joint Board. Further detail is provided in Report 60/22, "Devolved Budget to Angus Health and Social Care Integration Joint Board 2022/23". 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 61/22. The ANGUSalive Finance & Audit Sub Committee considered potential budget allocations from the Council on 28 January 2022 and the Full Board approved this on the 18 February 2022.

9.4 An update of the Council's Medium Term Budget Strategy (report 339/21) 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 3 March 2022 is contained in this report and the under-noted report: -

Report 64/22 – 2022/23 Provisional Revenue Budget Volume

10.2 This Volume contains a net expenditure summary covering each Service's budget for 2022/23 and a description of the proposed budget issues and service contraction savings as they affect each service area.

11 BACKGROUND – GENERAL FUND CAPITAL BUDGET 2022/23

11.1 Capital budget preparation guidance was issued by the Director of Finance outlining the procedures to be followed in the preparation of the 2021/2026 Capital Plan and the 2022/23 capital budget and services were required 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 the 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 2021, 12 January 2022, 2 February 2022
Shadow Budget Group	29 November 2021, 21 January 2022, 16 February 2022

- 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 68/22 on the long-term affordability of the General Fund capital plan provides more detail of the measures which have been developed.
- 11.4 The capital budget for 2022/23 has been prepared within the context of the ongoing COVID-19 pandemic. In 2021/22 consideration was given to the use of fiscal flexibilities, a package of measures identified by the Scottish Government for local authorities to utilise, should it be deemed prudent and appropriate, to address the funding pressures faced due to the pandemic. As outlined in paragraph 7.10 above these flexibilities cannot be used and have therefore not been considered as part of the 2022/23 capital budget.

12 CAPITAL RESOURCES

12.1 Background

The 2021/2026 Capital Plan, incorporating the 2022/23 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 2021/2026 Capital Plan has been prepared in this context and further information relating to the Prudential Code is contained in Report 69/22.

12.2 2022/23 Local Government Finance Settlement

Finance Circular 9/2021 (issued on 20 December 2021) provided details of funding allocations for 2022/23, these are provisional pending agreement of the Local Government Finance Order. No definitive information is available for 2023/24 onwards. Table 7, below, details Angus Council's capital support for 2022/23:

Table 7 – 2022/23 Finance Settlement

Funding Source	2022/23 £m
General Capital Grant (including Arbroath Flood Prevention £0.816 million)	10.982
Specific Capital Grant - Cycling, Walking and Safer Streets	0.507
Total Support for Capital	11.489

- 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 2022/23 is presented at agenda item 5(n) of this meeting (report 66/22) refers.
- 13.2 A thorough exercise has been carried out by Finance officers to assess the long-term affordability of the 2021/2026 Capital Plan. Full details of that assessment are provided in report 68/22.
- 13.3 In preparing the 2022/23 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 65/22):
- £11.0m for roads infrastructure capitalised maintenance
 - £0.300m for property capitalised maintenance
 - £0.100m for ground maintenance machinery replacement programme
 - £0.250m for schools information and communication equipment
 - £0.170m for IT infrastructure and hardware refresh programme
 - £1.191m for Arbroath Places for Everyone project
 - £0.750m for window and screen replacement programme
 - £0.300m for parks infrastructure repairs and renewals
 - £0.250m for upgrade and extension to the Forfar waste depot staff welfare facilities
 - £0.200m for cyber security zero trust architecture
 - £0.120m for IT network infrastructure renewal programme
- 13.4 The long-term affordability also allows for a total general contingency level of £3.764 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 still remains a significant investment and long term financial commitment in the 2021/2026 Capital Plan.
- 13.6 No grant funding from the Scottish Government will be available to finance the capital cost of the school, however revenue grant funding will be provided to support the project. The council received notification in August 2021 from the Learning Estate Investment Programme (LEIP) that it should anticipate this funding to total £40.4m, payable over 25 years, commencing in financial year 2025/26, on the basis that the school is open to pupils during 2025/26. In order for the council to receive the full grant it has been allocated, a number of key outcomes will require to be met on an ongoing basis 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.

Roads Infrastructure Capitalised Maintenance

- 13.7 An additional provision of £7.750 million, allocated over the years 2022/23 to 2025/26 has been made in the Capital Plan for Roads Infrastructure capital maintenance, with a further £3.250 million included for later years.

14 2021/2026 CAPITAL PLAN (INCORPORATING THE 2022/23 CAPITAL BUDGET)

- 14.1 The 2021/2026 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 2022 and that which is not anticipated to be legally committed by 31 March 2022.

- 14.2 **Appendix 2** provides a summary of the provisional directorate capital budgets for 2022/23 as contained in the Provisional Capital Budget Volume and shows an estimated net capital expenditure of £27.111 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 £11.055 million in 2022/23.

15 CAPITAL BUDGET DOCUMENTATION

- 15.1 The capital budget information required for the Special Meeting on 3 March 2022 is contained in both this report and report 65/22 – Provisional Capital Budget Volume. The budget volume contains details of each directorate / service budget submission for 2022/23 and their overall capital plan submission for the period 2021/2026.

NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to any material extent in preparing the above report are:

- Finance Circular 9/2021 issued on 20 December 2021 by the Scottish Government;
- Letter of 9 December 2021 from the Cabinet Secretary for Finance and Economy to COSLA President
- Letter of 9 February 2022 from Scottish Government Chief Social Work Adviser to Directors of Finance
- Letter of 10 February 2022 from the Cabinet Secretary for Finance and Economy to Directors of Finance

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List of Appendices:

Appendix 1 - Statement of Net Expenditure

Appendix 2 - Provisional Capital Programme (Summary)