

ANGUS COUNCIL

SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 15 FEBRUARY 2018

PROVISIONAL REVENUE & CAPITAL BUDGETS 2018/19 – BACKGROUND REPORT

REPORT BY THE HEAD OF CORPORATE FINANCE

ABSTRACT

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

1. RECOMMENDATIONS

1.1 It is recommended that the Council:-

- i) Note that the Angus Council Revenue Grant Support allocation for 2018/19 has been provisionally set at £205.259 million, as set out in section 3;
- ii) Note the provisional revenue budget submission(s) as contained in the 2018/19 Provisional Revenue Budget Volume (Report 61/18) and summarised in **Appendix 1** as the base budget;
- iii) Note and approve the budget issues as detailed in the Provisional Revenue Budget Volume (Report 61/18) and shown in column C & D of the Summary Statement of Net Expenditure at **Appendix 1** that have been added to directorate budgets;
- iv) Approve the provisional capital budget submission(s) as contained in the 2018/19 Provisional Capital Budget Volume (Report 62/18);
- v) Approve the proposed approach to utilising the specific and significant receipts outlined in Section 14 of this report;
- vi) Note the prospects for public spending in 2019/20 & beyond, including the areas of strategic priority / budget risk that may require future investment, as set out in section 9 of this report;
- vii) Note the high level projected funding gap and savings position for 2019/20 and 2020/21 as set out in Table 4 of the Report; and
- viii) Note and approve the Common Good Fund bids for funding as shown in **Appendix 3**

2. ALIGNMENT TO ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT

2.1 The revenue and capital budget proposals set out in this report, including the investment bids recognised and the budget savings arising from the Change Programme which are being recommended for approval, have been framed in the context of the Council's corporate priorities as set out in the Council Plan and the Local Outcomes Improvement 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 2018/19

3.1 Angus Council's Distributable Revenue Grant Support allocation for 2018/19 has been provisionally set at £194.688 million as detailed in Finance Circular (FC) 5/2017 announced on 14 December, subsequently amended to £194.950 million in correspondence from the Scottish Government/CoSLA on 23 January 2018 to correct an error detected by the Scottish Government/CoSLA in the grant calculations.

- 3.2 Subsequent to Finance Circular 5/2017 and the correction of the grant error the Council has been advised via Scottish Government and COSLA that it will receive an additional £3.474m in revenue grant for 2018/19 budget purposes. This is based on the revised budget proposals presented by Scottish Government at the Stage 1 Parliamentary debate on 31 January 2018. This additional allocation of grant is subject to final approval of the Scottish Budget by Parliament on 21 February but is considered suitable to assume for the purposes of setting the Council's budget. Members are advised that the additional grant is to be paid to the Council over 2 financial years - £0.751m in 2017/18 and £2.723m in 2018/19. For budget presentation purposes the full £3.474m has been included in the 2018/19 grant figures presented in this report.
- 3.3 The Council's grant allocation is conditional upon the Council agreeing to deliver on some specific commitments (see below) as specified by the Scottish Government and as set out in the letter of 14 December 2017 from the Cabinet Secretary for Finance and the Constitution. The grant and conditions attached to it have been confirmed as an all-inclusive package which must be accepted in full to avoid receiving a lesser grant settlement.
- 3.4 For 2018/19 the Scottish Government has stated it *"will work in partnership with local government to implement the budget and joint priorities in return for the full funding package which includes:-*
- *Baselining from 2018/19 the £130 million additional revenue grant announced late in the 2017/18 budget setting process.*
 - *£52.2 million revenue and £150 million capital to deliver on our agreed joint ambitious programme for the expansion of Early Years Education and Childcare provision. This is in addition to the £11 million of revenue which has been added to support the initial expansion of Early Years set out in the 2014 Act provisions;*
 - *An additional £24 million to cover the additional full year costs of the teacher's pay offer;*
 - *A continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the Teacher Induction Scheme. Local authorities will continue to be required to maintain an overall pupil:teacher ratio of 13:7, and secure places for all probationers who require a place under the Teacher Induction Scheme;*
 - *An additional £66 million to support additional investment in social care in recognition of a range of pressures local authorities are facing, including support for the implementation of the Carers (Scotland) Act 2016, maintaining the joint commitment to the Living Wage (including the agreement to extend it to cover sleepovers) and an increase in the Free Personal and Nursing Care payments. (The Angus Council share of the allocation is £1.565 million);*
 - *Maintenance of the £355 million baseline transfer from NHS Boards to Integration Authorities in support for health and social care; and*
 - *The continued flexibility to increase Council Tax by up to 3% which could generate an additional £77 million."*

The 2018/19 Angus Council allocation compared to the 2017/18 grant allocation per Finance Circular 1/2017 incorporating adjustments made in the 2017/18 budget is set out in table 1 below :-

Table 1 – Angus Council Revenue Grant Allocation

	2017/18 £m	2018/19 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Distributable Revenue Funding (per Finance Circular 5/2017 and subsequent announcements)	196.878	198.424	1.546	0.8
Funding yet to be distributed*				
Teachers Induction Scheme	0.227	0.227		
Discretionary Housing Payments	0.091	1.042		
Temporary Accommodation	0.383	0.000		
Early Years Expansion	0.000	1.044		
Criminal Justice Social Work	0.206	1.730		
Council Tax Reduction Scheme	0.650	0.000		
Forfar Community Campus Unitary Charge	2.792	2.792		
Revised Revenue Funding Total	201.227	205.259	4.032	2.0

* - estimated shares have been calculated using broad percentage shares and have yet to be confirmed by the Scottish Government. The 2017/18 figures are the estimated shares used in the 2017/18 budget setting process.

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 2018/19. These items need to be deducted in order to compare the revenue grant position on a like for like basis. This is set out in table 2 as follows:-

Table 2 – Angus Council Allocation After Deduction of Funding for Specific Costs

	2017/18 £m	2018/19 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
Total funding (per Table 1)	201.227	205.259	4.032	2.0
Specific funding:				
Discretionary Housing Payments	0.000	(1.042)		
Expansion of Early Years (1,140 hours)	0.000	(1.044)		
Early Years (600 hours) residual	0.000	(0.200)		
Full Year Impact of 2017/18 Teachers Pay Award	0.000	(0.532)		
Specific Grant Adjustments:				
Increase in Criminal Justice Grant	0.000	(0.082)		
Decrease in Gaelic Grant	0.000	0.003		
Decrease in Pupil Equity Funding	0.000	0.046		
Total	201.227	202.408	1.181	0.6

3.5 Table 2 shows that there is a net increase in revenue grant on a like for like basis of £1.181 million (0.6%). This is all that is available to meet cost increases caused by inflation and increased demand for some services. There will also be additional budget pressures to consider in the 2018/19 budget which will potentially require to be funded:-

- The Scottish Government announced a lifting of the pay cap and for the staff whose pay they determine directly, a pay rise of 3% for staff paid up to £36.5k and 2% for those paid above that will apply. This doesn't mean the same pay rises will apply in local government as this has separate negotiation arrangements but it's highly likely that local government unions will view matching the offer Scottish Government is making to its staff as a minimum. Claims well in excess of this from teaching and non-teaching unions have been made. Given this position a pay award provision totalling £4.000 million has been provided for in the 2018/19 budget proposals.

- 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 2018/19 won't be finalised until report 63/18 is considered by the Council and the Local Government Finance (Scotland) Order 2018 is approved by Parliament. Subject to these caveats it is considered that the Council can set its budget on the basis of the various elements of the funding deal being achieved.

4. FORMULATION OF BASE BUDGETS

- 4.1 Directorate base budgets have been prepared on an incremental basis using the 2017/18 budget as a starting point, allowing for those items of budget growth deemed allowable in accordance with the Head of Corporate Finance's guidance and taking cognisance of significant factors adversely or favourably impacting on to budgetary requirements for 2018/19. Base budgets have been reviewed for accuracy and adequacy through a technical validation process. The bulk of allowable budget growth in 2018/19 is made up of the annual cost of the incremental progression along pay scales and unavoidable commitments in respect of PPP projects.
- 4.2 **Appendix 1** sets out a summary of the Council's net expenditure position for 2018/19 based on the provisional base budgets and budget issues recommendations for each Directorate.

5. REVENUE BUDGET SPENDING CONSTRAINTS

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

6. BUDGET RESOURCES EXPECTED TO BE AVAILABLE & BALANCING THE BUDGET

- 6.1 It is not possible to confirm the total budget resources expected to be available to the Council for 2018/19 until key decisions on the setting of the Council Tax have been made (e.g. provision for non-collection, contributions to/from General Fund Balances and Special Funds, etc). These issues are covered in more detail in the separate Council Tax Setting Report (Report 63/18).
- 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**, approval of the budget issues as set out in column C & D and assuming a standstill Council Tax level, a shortfall of income over expenditure of around £14.072 million will exist in 2018/19.
- 6.3 The Change Programme underway across the Council is intended to deliver as much of the savings as possible for the 2018/19 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 Change Programme Report (59/18). Savings of £6.747 million are currently being projected for 2018/19 and the total of £6.747 million has been reflected in **Appendix 1**. The savings will be split out across Directorates/Services once details are finalised in time for production of the Council's Final Revenue Budget Volume in April.
- 6.4 After accounting for the Change Programme savings of £6.747 million a funding gap of £7.325 million remains of which £3.231 million is one off. After detailed consideration of the Council's overall budget, its priorities and reserves position the remaining funding gap is proposed to be met from the following measures:-

a) Curtailing the Capital Programme

Resources currently set aside in Reserves (General Fund Balances) which were to be used to fund capital expenditure will instead be used to help balance the 2018/19 revenue budget. This amounts to £3.968 million.

A further £0.632 million has been deducted from the 2018/19 loan charges budget on a one-off basis to help balance the revenue budget meaning a total reduction in funding for capital expenditure of £4.6m has been applied.

b) Revisiting earmarked General Fund monies

Officers have reviewed resources earmarked (set aside) in reserves for future use and have concluded that £1.093 million of these are no longer required on a priority basis. De-committing these resources means they can be used to balance the 2018/19 revenue budget.

c) Existing Uncommitted Reserves

At 31 March 2017 the Council's uncommitted General Fund balance was £0.334 million. A sum of £0.108 million of that balance was used to fund part year costs for recycling centres and £0.600 million of resources provided to the Angus Health and Social Care Partnership to support one-off severance costs has been returned to the Council as no longer being required in 2017/18. The updated uncommitted balance is therefore £0.826 million. It is proposed to use £0.697 million of this to help balance the 2018/19 revenue budget. The remaining £0.129 million would be retained in General Fund Balances for future use.

d) Increase Council Tax by 3%

In light of the ongoing challenges affecting the Council's budget and in order to avoid further cuts in essential services, the option of implementing a 3% increase in Council Tax for 2018/19, as permitted by the Scottish Government in their Finance Settlement offer, is considered largely unavoidable in order to limit the impact on services to the public. This would provide the Council with increased Council Tax income estimated at £1.767 million (this figure includes the increase in the Council Tax Base) which along with the other measures listed above would enable the Council to set a balanced budget for 2018/19.

The proposed 3% increase in Council Tax requires the approval of the separate Council Tax Setting Report (Report 63/18), which provides more detail in this regard.

- 6.5 The total funding gap and how this is proposed to be addressed by the Council in setting the 2018/19 revenue budget is as follows:-

Table 3 – Balancing the 2018/19 Revenue Budget

	Ongoing	One-Off	Total
Gross Funding Gap	£14.9m	£3.2m	£18.1m
Less Amount to be addressed by AHSCP	(£3.3m)		(£3.3m)
Less Change Programme	(£6.7m)		(£6.7m)
Less One-off reduction in loan charges		(£0.6m)	(£0.6m)
Less Use of Reserves:-			
Curtailing of Capital Expenditure		(£4.0m)	(£4.0m)
De-committed reserves		(£1.1m)	(£1.1m)
Existing uncommitted reserves		(£0.6m)	(£0.6m)
Less Proposed Council Tax Increase	(£1.8m)		(£1.8m)
Net Position	£3.1m	(£3.1m)	Nil

- 6.6 Assuming the Council agrees to an increase of 3% on Council Tax and the other measures proposed the budget can be balanced. However £3.1m of these measures are a one-off solution to cover costs of an ongoing nature and this will require permanent savings solutions to be found for 2019/20 in addition to the projected savings required for that year.

7 OTHER ISSUES PERTINENT TO THE 2018/19 REVENUE BUDGET

- 7.1 The following issues are also relevant to the consideration of the 2018/19 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 £44.672m. This is based on a starting position of "flat cash", i.e. the same allocation as in 2017/18 (£44.162m) and then applying an increase of £0.510m (1.1%) to recognise specific cost pressures facing the Partnership arising from the living wage and Carers Act. This uplift has been feasible following the announcement of the additional grant to Angus Council referred to in paragraph 3.2 above.

7.3 Budget Issues (Unavoidable Cost/Demand Pressures)

Through the budget process a number of areas were identified where an unavoidable increase in budget is required in 2018/19. These were discussed and reviewed in detail by the PBSG and at the all-Council Budget Strategy Briefing.

- 7.4 Overall a total of £1.775 million is recommended for funding, comprising £0.231 million one-off issues and £1.544 million on an ongoing basis. All of these budget issues have been added into directorate revenue budgets. A description of these budget pressures for each Directorate can be found in the Provisional Revenue Budget Volume (Report 61/18) under the Budget Issues section for each Directorate. It is also proposed to add £0.200 million to the Council's Change Fund as part of the 2018/19 revenue budget setting.
- 7.5 The recommended additions to the directorate 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**.
- 7.6 In addition the budget proposes to make provision for some additional cost pressures or specific issues as detailed in the Statement of Net Expenditure at **Appendix 1**. The most significant items are listed below:-
- Pay Award - £4.000 million to cover the costs of potential pay increases for all staff including teachers plus the impact of applying the Living Wage in the Council and Tayside Contracts. This provision takes into account Scottish Government announcements about the lifting of the pay cap for their staff. The 2018/19 pay award has yet to be agreed, therefore this carries an element of risk.
 - Severance Costs - £3.000 million has been set aside for the one off severance costs arising from the Change Programme. Should any of that budget provision not be required in 2018/19 it would roll forward for use to meet severance costs in future years.
 - Waste Disposal Contract - £2.900 million provision for the new residual waste disposal contract costs.
 - Other Services – provision for additional burdens - £0.750 million. This provision will be used if required to meet any budget issues arising during 2018/19 which cannot be managed via Directorate budgets.
- 7.7 Review of Charges
As part of the budget process a number of directorates have identified proposals for reviewing the charges levied for the provision of certain Council services. These are the subject of separate reports to this meeting of the Council (reports 51/18, 52/18, 53/18, 54/18, 55/18 & 56/18 refer). The financial impact of the proposed review of charges has been reflected in the provisional revenue budget figures shown in **Appendix 1**. The financial benefit of some of the review of charges proposals has in some cases been used by directorates to meet cost pressures elsewhere in their budget.
- 7.8 Capital Financing Costs (Loan Charges)
The separate Prudential Indicators report (Report 65/18) outlines that the provision for capital financing costs within the 2018/19 revenue budget is considered sufficient to meet the commitments as contained in the Provisional Capital Budgets Volume (Report 62/18). However it should be noted that any material amendment to the capital budget for 2018/19 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 2018/19.
- 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. Delivery of the surplus local tax income will be dependant upon continued good performance on Council Tax collection by Finance officers and is not necessarily guaranteed for future years.
- 7.8 Joint Board / Arrangement Budgets
The 2018/19 revenue budget for the Tayside Valuation Joint Board was agreed at the Board meeting in January 2018. Angus Council's budgeted share of the Joint Board's net expenditure is £0.720 million, excluding Electoral Registration Services which are budgeted for separately within Other Services.
- 7.9 The 2018/19 revenue budget for the Tayside Contracts Joint Arrangement has yet to be determined. However, from current information available, the Angus share of the total estimated surplus is £0.300 million.
- 7.10 The appropriate allocations to Angus Council in respect of the Joint Board and Joint Arrangement have been allowed for in the position shown in **Appendix 1**.

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 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 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 Directors and discussed and assessed by both officers and members prior to the budget being set. A process of risk assessment is applied through the budget process so that if resources don’t allow budget issues to be recognised in full there is an understanding of how much risk is involved in taking such a decision.

- Savings Capable of Delivery

The Change Programme is the primary route through which savings in budgets are being identified and delivered. Change Programme projects are at different stages in their life cycle with some complete and being implemented and others requiring further work to finalise where the savings will come from in the existing budgets. All projects with savings for 2018/19 are expected to be in their implementation phase by April 2018.

Based on the latest information provided by project leads and the review of all projects in the Change Programme by the Executive Management Team Scrutiny Board officers are confident of achieving the targeted savings for 2018/19. Nevertheless there is a risk that some downward movement against expected savings could emerge as projects are implemented or if any project implementation is delayed. At the point of setting the 2018/19 revenue budget that risk is considered to be low but should it arise the Council has reasonable contingency funds to manage that risk during 2018/19. The Council has a long history of taking difficult but pragmatic decisions on budget savings and of such savings being achieved.

- Provision for Inflation

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

- Contingencies / Special Funds

Another critical element of the Council’s management of budget risk is the availability of contingencies both within the budget and in funds and balances. Existing Council policy is to set aside around 1.6% of the net budget as a contingency in General Fund Balances. This currently equates to circa £4.0 million. There have been significant funds available to contribute to Special Funds over previous financial years. On the basis of current plans and expectations, 2018/19 is the last year of the prudential code strategy and there is currently no provision available for revenue funding contributions. A budgeted allowance of £0.460 million has been provided for this in the Summary Statement of Net Expenditure (**Appendix 1**) to cover the prudential code strategy. Within the revenue budget itself the Council holds a contingency sum of £0.750 million in the provision for additional burdens budget. Based on the 2018/19 budget proposals and the latest projected year end position for 2017/18 the General Fund will have a further £2.8 million of uncommitted reserves which can be drawn upon to cover general budget risks should these emerge.

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

- 8.4 In addition, all budget submissions have been considered from a risk perspective and no unmanageable risk issues have been identified for those proposals submitted for approval.
- 8.5 General inflation has been recognised where appropriate through the budget issues. Only essential/unavoidable carry forwards from 2017/18 have been proposed (report 50/18 refers.)
- 8.7 Provision within the 2018/19 budget for other risk items and uncertainties has also been allowed for (paragraph 7.6 refers).
- 8.8 In summary as author of this report and based on the information and assurances provided by Change Programme project leads regarding savings delivery I am content that based on the latest information available and my discussions with the Chief Executive and all other Strategic Directors that the proposed 2018/19 revenue budget is realistic and achievable. I also believe that reasonable contingency provision has been or will be made in both the budget and through balances 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 2018/19.
- 8.9 Members will however appreciate that further risk lies beyond the 2018/19 budget in relation to possible further funding reductions in real terms which seem likely to apply. Further comment on this is given at Section 9 of this report but the key issue is to set a budget for 2018/19 that is realistic and which can provide flexibility for future years.

9 PROSPECTS FOR 2019/20 & BEYOND

- 9.1 Members will be aware that the financial challenges facing local government are set to continue for the foreseeable future so with this in mind Members are asked to note the following in the context of the 2018/19 budget setting process:-
- The Council needs to set a 2018/19 budget which recognises that significant financial difficulties will continue beyond 2018/19, i.e. there is a need to be responsible, prudent and avoid taking short term decisions. The budget proposals for 2018/19 have accordingly sought to balance the need for investment in services now with the need to provide financial flexibility into the future.
 - Council Directorates need to continue to consider very carefully the extent to which they enter into longer term expenditure commitments moving forward. It must be recognised that any additional expenditure on a particular service will simply increase the burden of savings to be made in other areas. All Directors have been reminded of this as part of finalising the 2018/19 budget strategy.
 - Using the Medium Term Budget Strategy (Report 274/17 refers) and the Change Programme estimates the position for 2019/20 and 2020/21 is currently projected to be as follows:

Table 4 – 2019/20 and 2020/21 Estimated Funding Gap

	2019/20 £m	2020/21 £m	2 Year Total £m
Projected Funding shortfall	11.500	11.300	22.800
Adjustment for 2018/19 funding gap dealt with on a one-off basis (note 1)	3.100	0.000	3.100
Sub-total	14.600	11.300	25.900
Change Programme savings	(9.781)	(7.582)	(17.363)
Estimated funding gap still to be addressed (note 2)	4.819	3.718	8.537

Note 1 – this figure assumes a 3% increase in Council Tax is applied in setting the 2018/19 budget but this has still to be determined so is shown for illustrative purposes only at this stage.

Note 2 – remaining funding gap in 2019/20 and 2020/21 is based no Council Tax increase. A 3% increase in each year would yield circa £3m over the 2 years to help close the gap.

- 9.2 Table 4 shows that a funding gap remains to be bridged but significant progress is being made towards addressing that gap as the Change Programme develops. In particular members should note that the Change Programme figures for 2019/20 and 2020/21 require review and refinement and in many cases are currently based on conservative estimates pending the full scope of some of the reviews being developed. Members are asked to note the high level projected funding gap and savings position for 2019/20 and 2020/21 as set out in Table 4 in setting the 2018/19 revenue budget.
- 9.3 During the course of preparing the 2018/19 revenue budget some areas of risk and/or strategic priority have been identified that will undoubtedly impact on the council in future years and which may need further investment. These issues are summarised below:-
- Demographics – changes to the population are placing increased pressures on certain council and partner services. There is likely to be a requirement for increased investment in these services but the exact cost burden cannot be confirmed at this stage.
 - Third Party Inflation – third party providers of services on behalf of the Council are likely to continue to place additional strain on the council in future years to recognise their cost pressures. Although the council is committed to working with providers to increase efficiencies, it is likely further investment will be necessary to continue deliver 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 Angus Integration Joint Board on 1 April 2016. Further detail is provided in Report 57/18, “Health and Social Care Integration – Devolved Budget to Angus Integration Joint Board 2018/19”.
 - Angus Alive – the proposed budget settlement between the Council and Angus Alive is covered in more detail in Report 58/18. The Angus Alive Finance Sub Committee considered the budget proposal on 26 January 2018, although the full Board will only consider the proposal at their meeting of 23 February 2018 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 274/17) 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 15 February 2018 is contained in this report and the under-noted report: -

Report 61/18 – 2018/19 Provisional Revenue Budget Volume

- 10.2 This Volume contains a summary of each Directorate’s budget submission for 2018/19 and a description of the proposed budget issues as they affect each service area.

11 BACKGROUND – GENERAL FUND CAPITAL BUDGET 2018/19

- 11.1 Capital budget preparation guidance was issued by the Head of Corporate Finance outlining the procedures to be followed in the preparation of the 2017/2022 Financial Plan and 2018/19 capital budget and requiring directorates / divisions to submit financial plans based on an approved list of priority projects, as well as details of proposed new priority projects.
- 11.2 Table 5, below, details the various meetings at which capital budget strategy, issues relating to specific capital projects, financial plan submissions and new priority project bids were considered:

Table 5

Policy & Budget Strategy Group	22 November 2017, 11 January 2018, 29 January 2018
Executive Management Team	13 November 2017
All Council Budget Strategy Group	18 January 2018

- 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 64/18 on the long-term affordability of the General Fund Financial Plan provides more detail of the measures which have been developed.

12 CAPITAL RESOURCES

12.1 Background

The 2017/2022 Financial Plan, incorporating the 2018/19 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 Financial Plan, rather the affordability and sustainability of the revenue budget consequences of capital investment decisions (including any subsequent impact on the Council Tax) are the major factors. The 2017/2022 Financial Plan has been prepared in this context and further information relating to the Prudential Code is contained in Report 65/18.

12.2 2017/18 Local Government Finance Settlement

Finance Circular 5/2017 (issued on 14 December 2017) provided details of funding allocations for 2018/19. No definitive information is available for 2019/20 onwards, other than confirmation that the £150m of re-profiled general capital grant from 2016/17 (£2.426m for Angus Council) will be repaid in full in 2019/20. Table 6, below, details Angus Council's capital support for 2018/19:

Table 6 - Angus Council's capital support

Funding Source	2018/19 £m
General Capital Grant	12.601
Specific Capital Grant - Cycling, Walking and Safer Streets	0.159
Total Support for Capital	12.760

- 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 A thorough exercise has been carried out by Finance officers to assess the long-term affordability of the 2017/2022 Financial Plan. Full Details of that assessment are provided in report 64/18.

- 13.2 In preparing the 2018/18 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 62/18):

- £4.350 million for additional roads capitalised maintenance;
- £1.700 million for additional property capitalised maintenance;
- £3.850 million for additional IT infrastructure and hardware refresh programme;
- £450,000 to support the wider School Investment Strategy;
- £500,000 for parks and burial grounds capitalised maintenance;
- £460,000 to support participatory budgeting;

- £283,000 for works at Elms Cemetery, Arbroath and Kirriemuir Cemetery;
- £300,000 to upgrade the changing areas at Arbroath High School swimming pool; and
- an additional £400,000 towards the provision for complex care accommodation.

13.3 The above list includes £5.000 million of additional capital spending power in 2018/19 provided through the Council's Special Funds (capital conversion) strategy.

13.4 Furthermore, the Schools & Learning capital programme includes a number of projects relating to the expansion of early years services which are anticipated to be fully funded from Scottish Government Specific Capital Grant. It should be noted however that the level of grant for Angus Council has yet to be confirmed as discussions are ongoing between the Scottish Government and COSLA regarding the overall level of the grant resource and the method of distributing that between all councils. This represents a significant risk for the Council as the scope of projects may need to be revisited or other scarce capital resources may need to be applied if grant levels do not match the resources considered to be required.

13.5 The long term affordability also allows for a total contingency level of £5.379 million over the 5 years of the financial plan.

14 PROPOSED USE OF SPECIFIC AND SIGNIFICANT RECEIPTS

14.1 During 2017/18 the Council has received a one-off revenue receipt of £2.766 million through the new residual waste disposal project and a one-off capital receipt of £0.932 million from the sale of land near Monifieth. Despite the huge and immediate financial challenges facing the Council, it is considered important to use these receipts in a manner which delivers lasting benefit to the revenue budget rather than only one-off relief.

14.2 The PBSG considered the best use of these receipts and agreed that options for their use which deliver ongoing savings in the revenue budget should be given priority. Such options might include using some or all of the receipts to repay existing borrowing, to avoid new borrowing or to fund projects of a spend to save nature. Further work is required to identify the best long term use of these receipts so for 2018/19 budget setting purposes it is recommended that:-

- The £2.766 million revenue receipt be held in the General Fund Reserve as an ear-marked balance at 31 March 2018. Proposals on use of this receipt will be made to the PBSG early in the 2019/20 budget setting process and brought back to Council for consideration.
- The £0.932 million capital receipt be transferred to the Local Capital Fund at 31 March 2018. Proposals on use of this receipt will be made to the PBSG early in the 2019/20 budget setting process and brought back to Council for consideration.

15 2017/2022 FINANCIAL PLAN (INCORPORATING THE 2018/19 CAPITAL BUDGET)

15.1 The 2017/2022 Financial Plan details, for the General Fund, the total cost and phasing of the priority capital projects to be undertaken by Angus Council over the next 5 years. These costs are shown on an outturn basis, i.e. including an allowance for inflation. The capital expenditure on each departmental capital programme is differentiated, for budget planning purposes, between that which is anticipated to be legally committed by 31 March 2018 and that which is not anticipated to be legally committed by 31 March 2018.

15.2 **Appendix 2** provides a summary of the provisional directorate capital budgets for 2018/19 as contained in the Provisional Capital Budget Volume and shows an estimated net capital expenditure of £31.600 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 and general Scottish Government capital grant, the funding of the provisional capital budget will require new borrowing of £13.471 million in 2018/19.

16 CAPITAL BUDGET DOCUMENTATION

- 16.1 The capital budget information required for the Special Budget Meeting on 15 February 2018 is contained in both this report and report 62/18 – Provisional Capital Budget Volume. The budget volume contains details of each directorate’s budget submission for 2018/19 and their overall financial plan submission for the period 2017/2022.

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 5/2017 issued on 14 December 2017 by the Scottish Government;

Local Government Finance Settlement Revised Tables received from CoSLA on 23 January 2018.

Letter of 31 January 2018 from the Cabinet Secretary for Finance and the Constitution to COSLA President

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List of Appendices:

Appendix 1 - Statement of Net Expenditure

Appendix 2 - Provisional Capital Programme

Appendix 3 – Common Good Bids