

ANGUS COUNCIL

MEETING OF ANGUS COUNCIL – 7 SEPTEMBER 2017

MEDIUM TERM BUDGET STRATEGY 2018/19 TO 2020/21

REPORT BY HEAD OF CORPORATE FINANCE

ABSTRACT

This report sets out an updated medium term budget strategy (MTBS) for Angus Council's General Fund Services incorporating the projected funding shortfall over the period 2018/19 to 2020/21. Such a strategy is critical to the council's medium term financial planning arrangements and in view of the ongoing constraints on public spending.

1. RECOMMENDATION(S)

It is recommended that the Council:

- (a) note the contents of this report and in particular the need to continue to plan over the medium to long term to meet the significant financial challenges which the Council will face in the next few years;
- (b) approve the updated medium term budget strategy for the period 2018/19 to 2020/21 attached as Appendix A to this report;
- (c) note the central role of the Council's change programme in addressing the projected funding gap outlined in this report;
- (d) note the severity of the challenge the Council faces to remain financially sustainable and the significant and unavoidable impact this will have on services to the public;
- (e) note the intention to update the strategy annually to ensure the Council has a rolling 3 year strategy for the revenue budget and a rolling 4 year strategy for the capital budget; and
- (f) note the intention to bring a longer term strategic financial plan to the next Council meeting in October.

2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/SINGLE OUTCOME AGREEMENT/CORPORATE PLAN

This report contributes as a whole to the local outcome(s) contained within the Angus Community Plan and Single Outcome Agreement 2013-2016. The Strategy at Appendix A is intended to support delivery of the new Council Plan, Local Outcomes Improvement Plan and locality plans which are the subject of separate reports for this Council meeting.

3. BACKGROUND – MEDIUM TERM BUDGET STRATEGY

The Council's financial planning arrangements need to move with the times and with that in mind the Policy and Budget Strategy Group (PBSG) has agreed that both long term (strategic) and medium term financial planning strategies are required to ensure the Council can deliver on its vision and ambitions. The challenge has never been greater with reducing resources, rising demand and rising costs and this means it is essential to have clear plans and priorities for the future.

This report is the first medium term budget strategy for the Council and replaces the medium term financial strategies which have been prepared previously. A longer term strategic financial plan is also being prepared for submission to Council in October which will assess the long term challenges and opportunities affecting the Council's finances.

This report updates the position set out in October 2016 (report 371/16 refers) which covered

the 4 year period 2017/18 to 2020/21. The Council is asked to approve this updated strategy covering the period 2018/19 to 2020/21 which is attached at Appendix A.

In considering the strategy members are asked to bear in mind that approving the strategy does not in itself commit the Council to specific actions or introduce new policies over the period of the strategy. Rather the strategy is intended to provide a context in which to develop and trigger early consideration of future actions and strategies which, if to be taken forward, will require specific approval by relevant committees.

4. MAIN FEATURES OF THE PROPOSED STRATEGY

The medium term budget strategy update is broken down into 5 main sections as follows:-

- Background & Need for A Medium Term Budget Strategy
- Revenue Budget Financial Projections (2018/19 to 2020/21)
- Options and Plans for Bridging the Projected Funding Gap
- Capital Budget Financial Projections (2018/19 to 2021/22)
- Conclusions

5. REVENUE BUDGET FINANCIAL PROJECTIONS 2018/19 TO 2020/21

The medium term budget strategy covered by this report focuses on the position for the General Fund Services of the Council. Work in relation to a longer term financial strategy for Housing Services will be reported separately.

5.1 Estimated Funding Gap Projections Summary

The purpose of the projections in the report is to inform future service and budget planning and in particular to try to get an appreciation of the level of future savings that may need to be made.

Tables 1a, 1b & 1c below detail the estimated funding gap based on 3 scenarios - a base projection, an optimistic scenario projection and a pessimistic scenario projection. These scenarios reflect the real challenge of estimating future budget positions in the absence of information on Scottish Government grant allocations and key cost variables such as pay awards.

Table 1a – Estimated Funding Gap (Base Projection)

	2018/19 £m	2019/20 £m	2020/21 £m	3 Year Total £m
Funding shortfall	15.6	11.5	11.3	38.4
% age Level of Savings Needed	7.2%	5.3%	5.2%	17.7%

Table 1b – Estimated Funding Gap (Optimistic View)

	2018/19 £m	2019/20 £m	2020/21 £m	3 Year Total £m
Funding shortfall	13.9	8.9	6.1	28.9
% age Level of Savings Needed	6.4%	4.1%	2.8%	13.3%

Table 1c – Estimated Funding Gap (Pessimistic View)

	2018/19 £m	2019/20 £m	2020/21 £m	3 Year Total £m
Funding shortfall	17.8	12.7	12.6	43.1
% age Level of Savings Needed	8.2%	5.9%	5.8%	19.9%

5.2 Movement in Projections

The baseline projected funding gap in this report has increased by £9.4 million for the 3 year period 2018/19 to 2020/21 compared to that indicated in Report 371/16 submitted to Council in October 2016. This is mainly due to taking a more pessimistic view on future government grant allocations and the introduction of new cost pressures in areas like residual waste disposal. The projections also assume that the £2.1 million of reserves used to balance the 2017/18 budget on a one-off basis will need to be made good in 2018/19, i.e. permanent savings identified to that value. The impact on the Council's budget of higher levels of inflation have also been taken into account. When taken together these changes in assumptions increase the projected funding gap under all 3 scenarios compared to those previously reported.

5.3 Bridging the Funding Gap

It is vital that the Council take a strategic and measured approach to bridging the projected funding gap identified and the intention is to do that almost entirely through the change programme (Report 278/17 refers). The percentage reductions to budgets approach used by the Council in the past will accordingly only be considered as a last resort measure should the savings identified through the change programme be insufficient to achieve a balanced budget.

5.4 At this stage savings options of up to £14.951 million have been identified for bridging the funding gap and this highlights the serious financial challenges which Angus Council faces over the next 3 years and the further work that is required to identify additional savings and funding options. It is clear from the Strategy attached at Appendix A that significant changes to services will be required for the Council to live within the resources expected to be available.

Severity of the Challenge and Implications for Services

5.5 The further savings projected to be required are in addition to the £27.0 million saved in the last 4 years alone and the reduction in the Council's workforce of around 400 staff in the same period. The scale and sustained nature of the savings required is unprecedented in modern times.

5.6 The MTBS should leave Councillors and members of the public in no doubt about the severity of the challenges the Council faces to remain financially sustainable. Angus Council has never faced a more serious challenge to its financial viability than that which lies ahead in the next few years. Significant improvements to the funding settlements received by Local Government compared to recent years would be necessary to lessen the severity of the challenge and that scenario seems unlikely.

5.7 The change programme and the multiple service re-designs and efficiency activity which is part of the programme is intended to limit the negative effects on service provision from having to make such significant savings in budgets and officers will be doing their utmost to protect service provision as much as possible. Nevertheless savings on the scale estimated to be required simply cannot be achieved without real and far reaching changes and reductions to services. Work to ensure citizens and businesses across Angus are aware of this reality will be undertaken.

5.8 How Will The Strategy Be Used

The strategy is intended to provide a context and a basis which will enable better informed decisions to be made in the years ahead in relation to policy development, service provision and prioritised resource allocation.

It will be noted that a significant part of the strategy focuses on the estimated gap which is projected to exist between spending needs and funding levels and this in turn drives the need for budget savings and service changes.

5.9 Strategy Development & Updating

The strategy will be updated on an annual basis so that the Council has a rolling 3 year financial strategy (revenue) and 4 year rolling strategy (capital) from which to take forward its objectives and priorities.

6. FINANCIAL IMPLICATIONS

There are no direct financial implications for the Council arising from the recommendations in this report. The consequences of the projections outlined in the strategy will have significant implications for the Council's finances but these matters will be the subject of separate reports to appropriate committees in the future.

NOTE: No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report

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List of Appendices: Appendix A – Medium Term Budget Strategy 2018/19 – 2020/21 Update
Annex 1 (to Appendix A) – Updated Capital Project Priority Model