

ANGUS COUNCIL

MEETING OF ANGUS COUNCIL – 24 MARCH 2016

FINANCIAL STRATEGY 2016/17 TO 2019/20 - UPDATE

REPORT BY HEAD OF CORPORATE IMPROVEMENT & FINANCE

ABSTRACT

This report asks members to approve an update to the Council's medium term financial projections for the period 2017/18 to 2019/20 and to note the programme of work which will be undertaken to address the projected future funding gaps so the Council remains financially sustainable.

1. RECOMMENDATION(S)

1.1 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 term to meet the significant financial challenges which the Council will face in the next few years;
- (b) approve the updated medium term financial projections for the period 2017/18 to 2019/20 set out in this report as a basis upon which to continue to take forward service planning and priority based budget setting for the period covered by the Strategy;
- (c) note the programme of work, primarily through the Transforming Angus Programme, which is ongoing or will be undertaken to address the projected future funding gaps so the Council remains financially sustainable;
- (d) note that the next full update to the Council's Medium Term Financial Strategy covering the period 2017/18 to 2020/21 will be brought to Council in September/October this year by which time it is hoped more information on Scottish Government future spending plans will be available.

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

2.1 This report contributes as a whole to the local outcome(s) contained within the Angus Community Plan and Single Outcome Agreement 2013-2016.

3. BACKGROUND – MEDIUM TERM FINANCIAL STRATEGY 2016/17 to 2019/20

3.1 Reference is made to Report 347/15 which was approved by the Council at its meeting of 10 September 2015. That report set out the updated medium term financial strategy for the Council covering the period 2016/17 to 2019/20 but noted that the Strategy may need to be revisited once details of the UK Spending Review and Scottish Government Budget were available.

3.2 As members of the Council will be well aware the 2016/17 Local Government Finance Settlement was particularly challenging and required a significant amount of additional budget savings beyond those already planned to deliver a balanced budget. The reduction in Government Grant for Councils in 2016/17 was well beyond what had gone before, even compared to the early years of austerity, and in light of this it is considered prudent to reassess some of the key assumptions originally made in Report 347/15 to ensure the Council's financial strategy and scenario planning remain robust and fit for purpose.

- 3.3 In addition and given the scale of additional budget savings which were required for 2016/17 it is appropriate to update our existing plans and begin to identify the further options needed for how future funding gaps will be bridged so the Council can remain financially sustainable.

4. CURRENT POSITION

Spending Review/Scottish Budget Information

- 4.1 At present there is no information other than UK Spending Review estimates for the Scottish Budget beyond 2016/17. The Scottish Budget for 2017/18 and beyond is expected to be published later this year after the Scottish Parliamentary elections. Angus Council, as has been the case for the last several years, must therefore continue to plan its finances in an environment of significant uncertainty as far as the majority of its income is concerned (government grant).
- 4.2 Members will also be aware that political parties are beginning to outline their manifestos for the May 2016 elections with commitments around Council Tax reform, Grant reform and prioritisation of spending on schools among some of the early headlines which may affect the Council's budget in future years. The 2017/18 financial year also brings in additional flexibility for the Scottish Parliament to make decisions on taxation which could have a material effect on the resources available for public services.

Savings Projection as at September 2015

- 4.3 Report 347/15 identified a total estimated saving requirement for the 4 year period 2016/17 to 2019/20 of £30m. This was the baseline assessment but optimistic and pessimistic scenarios were also prepared to inform the Council's financial and budget planning as directed through the Policy & Budget Strategy Group (PBSG). As a reminder Table 1 below shows the headline estimates of savings required for the 3 scenarios covered in Report 347/15.

Table 1 – Summary of Projected Savings Requirement

Total Funding Shortfall	2016/17 £m	2017/18 £m	2018/19 m	3 Year Total £m	2019/20 £m	4 Year Total £m
Baseline Projection	7.1	8.9	7.6	23.6	6.4	30.0
Optimistic Projection	6.1	8.2	5.9	20.2	5.6	25.8
Pessimistic Projection	8.0	11.5	9.2	28.7	9.1	37.8

- 4.4 Of the above sums at the time of Report 347/15 some £6.8m of savings for 2016/17 had already been identified in line with the existing 3 year budget plans agreed by Council in February 2015.

5. PROPOSALS – UPDATED PROJECTIONS

- 5.1 The original budget projections per Report 347/15 have been reviewed in light of the actual decisions made in setting the 2016/17 budget. The remaining assumptions which informed those projections are in the main considered to remain valid based on current information. The main area where there is a case to reconsider the previous assumptions is Government Grant.
- 5.2 The baseline projections in Report 347/15 assumed a 1.5% cash reduction in core government grant in 2016/17, a 1% cash reduction per annum in 2017/18 and 2018/19, and a cash flat position in 2019/20. The actual Angus Council cash reduction for 2016/17 turned out to be 3.4% on a like for like basis. There is no information currently available on what level of cut, if any, might be applied to local government funding for 2017/18 to 2019/20.
- 5.3 There are so many factors which might influence the Council's grant allocation from Scottish Government in future years that any projections are largely guesswork. The final position will be influenced by the Chancellor's March 2016 Budget and any knock on consequences for the Scottish Block; the outcome of the Scottish Parliament elections; the priorities of the incoming Scottish Government; Scottish Government decisions on taxation and the allocation of the total resource available and prevailing economic conditions.

- 5.4 Notwithstanding the challenges of projecting future Government Grant levels it seems likely that the resources available for local government will continue to be stretched given the pressures on the health service caused by demographic change and the prioritisation of the health service and other services such as Police by successive Governments. On this basis and solely for the Council's financial scenario planning it is considered prudent to update the Government Grant assumptions made in Report 347/15 to the following:-

Table 2 – Updated Government Grant Assumptions

Assumption	2017/18	2018/19	2019/20
Cash Reduction (Baseline)	-1.5%	-1.5%	-1.0%
Cash Reduction (Optimistic)	-1.0%	-0.5%	0.0%
Cash Reduction (Pessimistic)	-3.0%	-2.5%	-2.0%

- 5.5 Based on the above revised assumptions the updated funding gap for the period 2017/18 to 2019/20 would be as shown in Tables 3a, 3b and 3c below.

Table 3a – Estimated Funding Gap – After Savings (Base Projection)

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Funding shortfall	9.8	8.5	8.2	26.5
<i>% age Level of Savings Needed</i>	4.5%	3.9%	3.7%	12.1%

Table 3b – Estimated Funding Gap – After Savings (Optimistic View)

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Funding shortfall	8.2	5.9	5.6	19.7
<i>% age Level of Savings Needed</i>	3.7%	2.7%	2.6%	9.0%

Table 3c – Estimated Funding Gap – After Savings (Pessimistic View)

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Funding shortfall	13.3	11.0	10.8	35.1
<i>% age Level of Savings Needed</i>	6.1%	5.0%	4.9%	16.0%

- 5.6 In tables 3a to 3c the percentage level of saving needed is based on the Council's total net expenditure excluding certain commitments like PPP costs and loan charges which are largely fixed. It is recommended that these updated figures be used by the Council and thereafter the Policy & Budget Strategy Group in the coming months as the basis for updating the Council's financial strategy and priority based budget plans for the 3 year period 2017/18 to 2020/21.
- 5.7 As members know a rolling 4 year Medium Term Financial Strategy is prepared each year. The next full update to the Strategy covering the period 2017/18 to 2020/21 will be brought to Council in September/October this year by which time it is hoped more information on Scottish Government future spending plans and any other relevant changes e.g. on Council Tax will be available.

6. PROGRAMME OF WORK TO BRIDGE THE PROJECTED FUNDING GAP

Existing Financial Strategy

- 6.1 Remaining financially sustainable is probably the biggest challenge facing the Council in the next few years and to remain financially sustainable significant and far reaching change is required to what the Council does and how it does it. As members are well aware the Council has agreed a future financial strategy which adopts a priority based approach to budgeting and will no longer adopt a “salami slicing” approach to budget savings. The Council’s savings strategy is instead based around key strategic priorities and the Transforming Angus (TA) Programme. The TA programme reflects the Council’s commitment to change how we do things and to addressing our financial challenges on a strategic rather than piecemeal basis.

Transforming Angus Programme – Projected Savings from Current Main Projects

- 6.2 As outlined in the latest TA Programme update (Report 113/16 to the 15 March 2016 Policy & Resources Committee refers) the current projects in the TA Programme which have reached at least an Outline Business Case (OBC) stage are expected to generate savings of £49.3m over their lifetime (broadly speaking the 5 year period 2016/17 to 2020/21). Table 4 below summarises the position based on the Outline Business Cases for each Project and in the case of the Angus Alive project the Final Business Case.

Table 4 – Existing TA Programme – Main Projects Subject to OBCs

Programme/ Project	Before Investment Costs	After Investment Costs
Culture and Leisure Trust (Angus Alive)*	£4,485,000	£2,562,000
Help to Live At Home*	£13,744,921	£12,909,638
Passenger Transport*	£8,567,698	£4,236,169
Procurement Review*	£10,030,000	£8,617,000
Agile and Estates	£12,495,738	£9,770,638
Overall Total	£49,323,357	£38,095,445

- 6.3 The figures in Table 4 show a cumulative position but for budget planning purposes the key is to identify the level of savings which will be generated in each financial year. Officers are currently reviewing the updated phasing of savings from the Programme in light of project progress and decisions made in setting the 2016/17 budget but in broad terms the phasing of annual savings from the current main projects in the TA Programme over the period 2017/18 to 2019/20 is as shown in Table 5 below.

Table 5 – Current TA Programme Main Projects – Estimated Phasing of Savings

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Savings Projected	4.4	4.7	6.1	15.2

- 6.4 As members may recall from the Outline Business Cases the estimated savings are considered to be on the prudent side and there is therefore potential for actual savings delivered to exceed the levels identified above.

Further Savings from Tier 1 Reviews

- 6.5 In planning the Council’s future savings strategy the Council Management Team identified a number of projects and ideas for financial savings. These were prioritised into Tier 1 Reviews and Tier 2 Reviews. Tier 1 Reviews are the main current projects in the TA Programme as listed in Table 4 above plus 2 other areas as follows:-

1. Review of Staffing/Management & Grading Structures
2. Channel Shift Programme

6.6 These two Tier 1 reviews are not as far advanced in terms of confirming the value of savings which they will deliver as the projects in Table 4 but the Council Management Team is confident they will also deliver significant savings over the next 3-4 years. These areas of work are priorities to progress this calendar year and both are expected to begin delivering savings from 2017/18 onwards. The Channel Shift Programme in particular holds significant potential for savings through service redesign, online provision and digital transformation. The projects already identified for delivery through the Channel Shift Programme include:-

- Online planning applications and building warrants (national system)
- Online school payments
- Payments at ACCESS Offices
- ACCESS Office Top 10 services
- Income Strategy

6.7 The TA Board and PBSG will over the next couple of months confirm the savings expected to be achieved from these last parts of the original Tier 1 Reviews programme but it is considered reasonable at this stage to target £3-5m from these reviews over the period 2017/18 to 2019/20.

Tier 2 Reviews

6.8 As indicated above the Council Management Team identified a second tranche of areas for review and potential savings as part of its strategic financial planning discussions in early 2015. Detailed scoping and planning for these Tier 2 Reviews, as directed by the PBSG and TA Board, will begin shortly to ensure that the Council has a pipeline of projects and strategic savings options coming through beyond the existing Tier 1 Review Programme. Work on Tier 2 Reviews will not however begin in detail until such time as officers are confident that this will not detract from progress on Tier 1 Reviews which need to be seen through to a conclusion.

6.9 For information the main areas identified as potential Tier 2 Reviews were:-

1. Collaboration/shared services
2. Review of school estate
3. Outsourcing of services
4. Review of bus services
5. Income generation

6.10 Some work on items 1, 2 and 5 has already been undertaken and is at the scoping stage. It is too early to identify the savings potential from these Tier 2 Reviews but there is no doubt that these areas could deliver a significant contribution towards balancing future budgets. The PBSG and TA Board will confirm the savings potential from these Reviews over the course of 2016.

Local Taxation Flexibility

6.11 Although dependent on the outcome of the Scottish Parliamentary elections in May 2016 there appears to be recognition by the main political parties that the Council Tax freeze, which has existed for the last 8 years, is no longer sustainable given the other demand pressures on local government services and past and future reductions in government grant. In this context it is reasonable to expect that local taxation, perhaps based on a reformed Council Tax, will once again become a means through which the Council can address some of the projected future funding gaps in its budget.

6.12 Clearly it would be imprudent to assume that tax rises would be the sole answer to future funding gaps (that's not likely to be acceptable to the public or politicians) but it would be reasonable to assume some level of contribution from this source towards future funding gaps in the Council's budget. If for example the Council was able to raise Council Tax (under the existing system) by only 2% p.a. in each of financial years 2017/18 to 2019/20 this would raise additional income of £5.7m over that period which could be used to help bridge some of the funding gap identified earlier in this Report.

Summary Position

- 6.10 The scale of challenge facing the Council's finances in the next few years is unprecedented, not least because of all of the financial savings which have already been delivered in the early years of austerity. The Council is however well placed to respond to the financial challenges from the work that is already well underway on its TA Programme; the further savings that will be delivered from other Tier 1 Reviews; the savings/additional income which will undoubtedly flow from Tier 2 Reviews and the flexibility which seems likely to be available from local taxation beyond 2016/17. In addition the Council's TA Change Fund and Reserves positions provide a solid foundation from which to meet any investment requirements in order to achieve long term savings.
- 6.11 A lot of difficult work lies ahead for both Councillors and Officers of the Council to deliver on the savings work which is already underway but as things stand we can be confident that we have a strategic approach and a pipeline of programmes and projects which will allow the Council to meet its financial challenges and remain financially sustainable.
- 6.12 It is recommended that the contents of this report be utilised by the PBSG as the basis to take forward the next 3 year budget plan for the Council. That plan will confirm in detail the phasing of savings from the various reviews underway and how future budgets will be balanced.

7. FINANCIAL IMPLICATIONS

There are no additional financial implications for the Council arising from the recommendations in this report beyond those outlined in Sections 5 and 6 of the report. The consequences of the projections outlined and the projects and options to deliver future savings will have significant implications for the Council's finances but these matters will be the subject of separate reports to appropriate committees when required.

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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