

ANGUS COUNCIL

MEETING OF ANGUS COUNCIL – 10 SEPTEMBER 2015

MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20

REPORT BY HEAD OF CORPORATE IMPROVEMENT & FINANCE

ABSTRACT

This report sets out the updated medium term financial strategy for Angus Council's General Fund Services incorporating the projected shortfall over the period 2016/17 to 2019/20. The need for 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 term to meet the significant financial challenges which the Council will face in the next few years;
- (b) approve the updated medium term financial strategy for the period 2016/17 to 2019/20 attached as Appendix A to 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 that the strategy may require to be adjusted to cope with changing circumstances; and
- (d) note the intention to update the strategy on an annual basis so that the Council has a rolling 4 year financial strategy in place.

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

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

Reference is made to Item 8 of the minute of the meeting of Angus Council of 19 June 2014, which set out the updated medium term financial strategy for Angus Council's General Fund Services incorporating budget savings requirements for the period 2015/16 to 2018/19 and noted the intention to update the strategy on an annual basis so that the Council has a rolling 4 year financial strategy in place.

This report sets out an update to the medium term financial strategy agreed in June 2014 and covers the 4 year period 2016/17 to 2019/20. The Council is asked to approve this updated strategy as a basis upon which to continue to take forward future service planning and priority based budget setting. 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. A copy of the strategy document is attached as Appendix A to this report.

4. MAIN FEATURES OF THE PROPOSED STRATEGY

The medium term financial strategy update is broken down into 4 main sections as follows:-

Revenue Budget Financial Projections (2016/17 to 2019/20)

The focus of the projections is to identify the main areas of cost pressure over the period of the Strategy and to identify the extent of influence the Council can have on such pressures. The projections also identify the estimated gap between the cost of current service provision and the resources estimated to be available to provide them in terms of government grant, local taxation, etc.

Identification of the projected financial gap (within a range of possible outcomes) provides a clearer view of what needs to be done in relation to service prioritisation and efficiency reviews. A summary of the outcome of the financial projections work is given in Section 5 of this report.

Capital Budget Financial Projections (2016/17 to 2019/20)

This section is drawn from the long term affordability work undertaken as part of the 2015/16 budget setting process and is based on the position set out in Report 63/15 approved by the Council in February 2015. Specific issues and risks in relation to future capital spending are highlighted within this section of the Strategy.

Efficient Government Agenda

Based on the assumptions made, the revenue budget financial projections clearly indicate that significant cost savings will need to be made in order to balance future budgets. In order to limit the impact of such savings on service delivery and improving outcomes it is essential that the Council continues to deliver a programme of efficiency/service reviews. This section of the strategy outlines the Council's approach to efficiency work which fits under the umbrella of the Government's efficiency agenda.

Cost Reduction Requirements to Balance Future Budgets

The 2013/14 to 2016/17 Medium Term Financial Strategy set out some key facts on the Council's cost and income base and how this has moved in recent years. This detailed analysis was not revisited as part of last year's update rather the focus was on some relevant issues that were worth reiterating and this approach has been adopted again for this updated strategy.

5. REVENUE BUDGET FINANCIAL PROJECTIONS 2016/17 TO 2019/20

The medium term financial 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 is considered separately. Section 2 of Appendix A explains the basis for the projections and the critical issues to bear in mind in considering these. With this in mind the following paragraphs provide only a brief summary of how the projections have been calculated and of the most significant issues arising.

Background to the Projections

Members will appreciate that making financial projections is a difficult exercise for an organisation such as the Council which is subject to unpredictable and uncontrollable demands for service, changes in legislation and which is funded mostly by government grant. Notwithstanding the very serious challenges which arise from preparing meaningful financial projections over the medium term it is essential that this exercise is undertaken with as great a degree of accuracy as possible to inform future service delivery / efficiency plans.

Assumptions

Medium term financial projections such as those set out in the financial strategy are based heavily on assumptions. Changes in these assumptions can have a material effect on the end outcome. Important assumptions have been made in relation to the following items, the detailed explanations for which are included in paragraphs 2.10 to 2.27 of Appendix A:-

Pay Inflation & Pressures
School & Public Transport Costs
Demographic Change
Third Party Inflation
Waste Management Costs
Energy Costs
Capital Financed from Current Revenue (CFCR)
Transforming Angus Change Programme
Core Government Grant
Council Tax

Core Government Grant

The assumptions in relation to Core Government Grant are the most critical to the projections and in many ways are the most difficult to estimate.

There is currently no detailed information available with regard to the level of grant support after 2015/16. The UK Government are currently undertaking Spending Review 2015, the outcomes of which will not be announced until 25 November 2015. The Scottish Government will announce the results of its own Spending Review thereafter, with announcements relating to grant allocations unlikely to be made until late December.

In preparing projections of core government grant, regard has been taken of high level announcements made by the UK Government in respect of planned budget cuts to be made by 2019/20, as well as other reports/documents that have been published by various organisations e.g. the Improvement Service, Fiscal Affairs Scotland over the last few months in preparing this Strategy. It must be stressed that the information currently available is extremely high level (i.e. at UK Government level), with no information at all available as yet with regard to overall Scottish Government funding. **The projections of the Council's core government grant contained in this Strategy update therefore contain a very high degree of uncertainty and may require to be revisited once the outcome of the Spending Review is known.**

The projections currently assume a 1.5% reduction in core government grant in 2016/17, a 1% reduction per annum in 2017/18 and 2018/19, and a cash flat position in 2019/20. The anticipated reductions in loan charges support grant are in addition to the reductions in core grant applied from 2016/17 to 2019/20.

Based on these projections the Council's revenue grant support is projected to reduce by circa £7.6 million over the 4 year period 2016/17 – 2019/20. It remains a significant risk that the government grants will be even more curtailed than those projected if the UK economic recovery is slower than projected by the OBR and given the government's ongoing desire to protect other parts of the public sector e.g. NHS. The fact that more than 80% of the Council's funding comes from Government merely serves to emphasise the extent of the financial difficulties which the Council will face in the period ahead.

Council Tax

The projections have calculated the estimated funding gap which the Council may need to bridge and increasing the Council Tax is identified as an option for how some of that gap could be made up. The Scottish Government manifesto pledged to freeze the Council Tax for the entire 5 year term of the current Scottish Parliament. The current Spending Review package includes support for this Council Tax freeze, but Council Tax setting decisions ultimately rest with individual Councils.

It will therefore be for Angus Council to decide as part of the annual budget process whether Council Tax increases will be used to help balance future budgets. The Scottish Government has confirmed that it will continue to provide £70 million per annum nationally to allow Councils to freeze the Council Tax in 2015/16, but there is no guarantee that this policy will continue for 2016/17 and beyond. In an Angus Council context our share is £1.398 million in 2015/16. In previous years the Scottish Government has asked councils to agree to a number of specific commitments in order to receive their full grant settlement, however in the event that a Council Tax freeze was not applied the minimum loss of grant would equate to an increase of circa £32 (3.0%) on the 2015/16 Band D Council Tax of £1,072.

The projections assume that no Council Tax increase is applied over the 4 years of the strategy on the basis that this will be one of the options (in addition to budget savings) for how part of the funding gap could be bridged. It would not be appropriate within the financial strategy to speculate about future Council Tax levels as these will be decisions taken on an annual basis based on all relevant factors at that time.

Other Assumptions

Except where indicated otherwise, the projections also assume that service provision levels and methods will remain as at present (2015/16 levels). This means that reductions in service provision levels or new more efficient methods of delivery will help narrow the financial gap identified in the projections.

Link to Efficient Government Agenda

It is expected that savings arising from scrutiny/efficiency reviews and the Transforming Angus Change Programme will feature heavily in future budget savings proposals. Further comment on the Council's future efficiency plans is given in Section 4 of the Financial Strategy.

Projections Summary

The purpose of the projections 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. Table 1 below provides a high level summary of the projection results based on the assumptions made. The funding gap shown is the amount which would need to be met from a combination of savings from services, service review savings, by taking budget risks and potentially Council Tax increases.

Table 1 – Summary of Projected Savings Requirement

			2016/17 £000	2017/18 £000	2018/19 £000	3 Year Total £000	2019/20 £000	4 Year Total £000
Total Funding (annual)	Shortfall		7,100	8,900	7,600	23,600	6,400	30,000

Implications for Budget Savings

Table 1 above illustrates that the funding shortfall in 2016/17 is £7.1 million with further funding gaps of £8.9 million in 2017/18, £7.6 million in 2018/19 and £6.4 million in 2019/20 giving a total shortfall of £30.0million over the four years.

It is worth noting that in setting the 2015/16 budget a package of savings totalling £6.8 million for 2016/17 were agreed. The above shortfall is before adjusting for these approved savings. Further comment on the implications for budgets and savings requirements is set out below.

Sensitivity Testing & Savings Requirement

Given the reliance within the projections on estimates and assumptions a number of sensitivity tests have been applied to the more material of these by taking a more optimistic and pessimistic perspective.

Section 2 of Appendix A detail the results of the sensitivity tests which indicate that the level of funding gap could vary quite significantly with a range of between £25.8m (optimistic) and £37.8million (pessimistic).

After adjusting for those savings that have already been approved for 2016/17 this reduces the 4 year total funding gap and thus the amount of savings that still require to be found in service budgets. Savings from corporate (council-wide) budgets and the management of budget risks may also ultimately assist in addressing the gap.

Tables 2a, b & c below detail the estimated funding gap after adjusting for approved savings based on the base projection as well as the optimistic and pessimistic scenarios.

Table 2a – Estimated Funding Gap – After Savings (Base Projection)

	2016/17 £m	2017/18 £m	2018/19 £m	3 Year Total £m	2019/20 £m	Total £m
Funding shortfall	7.1	8.9	7.6	23.6	6.4	30.0
Approved Savings	(6.8)	-	-	(6.8)	-	(6.8)
(Headroom)/ Shortfall	0.3	8.9	7.6	16.8	6.4	23.2
% age Level of Savings Needed	n/a	n/a	n/a	7.8%	3.0%	10.8%

Table 2b – Estimated Funding Gap – After Savings (Optimistic View)

	2016/17 £m	2017/18 £m	2018/19 £m	3 Year Total £m	2019/20 £m	Total £m
Funding shortfall	6.1	8.2	5.9	20.2	5.6	25.8
Approved Savings	(6.8)	-	-	(6.8)	-	(6.8)
(Headroom)/ Shortfall	(0.7)	8.2	5.9	13.4	5.6	19.0
% age Level of Savings Needed	n/a	n/a	n/a	6.3%	2.6%	8.9%

Table 2c – Estimated Funding Gap – After Savings (Pessimistic View)

	2016/17 £m	2017/18 £m	2018/19 £m	3 Year Total £m	2019/20 £m	Total £m
Funding shortfall	8.0	11.5	9.2	28.7	9.1	37.8
Approved Savings	(6.8)	-	-	(6.8)	-	(6.8)
(Headroom)/ Shortfall	1.2	11.5	9.2	21.9	9.1	31.0
% age Level of Savings Needed	n/a	n/a	n/a	10.2%	4.2%	14.4%

Table 2a above illustrates that after adjusting for the value of savings already approved, the base projection funding gap is c £16.8 million over the next 3 years, increasing to c. £23.2m over 4 years. This is the level of savings that remains to be found in service budgets and this would mean a savings requirement of 7.8% or 10.8% respectively on 2015/16 core budgets.

Looking at the optimistic view (Table 2b) on future cost pressures and government grant, the adjusted 3 year savings requirement is £13.4 million (6.3%) increasing to £19.0 million (8.9%) over 4 years. The pessimistic assessment (Table 2c) suggests a total savings requirement after allowing for approved savings, over the 3 year, period of £21.9 million (10.2%), increasing to £31.0 million (14.4%) over the 4 year period.

Based on the projections work and the sensitivity testing it appears that savings in the order of between 6.3% and 10.2% remain to be identified over the next 3 years. This increases to 8.9% to 14.4% over the 4 year period.

It is worth highlighting that the percentage saving is based on the Council's core net expenditure on services i.e. after removal of the Loan Charges budget, Capital Funded from Current Revenue, Joint Boards, PPP unitary charge payments, Other Services etc. as these budgets are subject to specific arrangements which restricts the ability to apply budget savings.

Risk and Issues

The extent of variation in the results per Tables 2b and 2c may in some ways be surprising but this is a product of the extent to which the financial projections outlined in the financial strategy are so heavily reliant on assumptions and in particular the dominant impact on the results of the assumptions made in relation to government grant levels and pay awards. The sensitivities are therefore essential to understanding the range of possible outcomes for the Council. In considering the funding gap and in developing a budget strategy, it is essential that the risks inherent in these projections are fully understood. There are a number of risks to

the projections but three of these risks are considered to be fundamental risks which members are asked to bear in mind as follows:-

Fundamental Risks

- (i) All of the projections in this Strategy are predicated on the basis that, in the main, any service delivery changes arising from the public sector reform agenda will be cost neutral to local government and that the assumed Scottish Government grant figures are delivered.
- (ii) These projections assume a continuation of current service delivery levels and make no allowance for any national policy changes or further manifesto commitments being imposed on local government as part of any future funding packages that may be offered by the Scottish Government.
- (iii) The government grant projections in the Strategy are based on very high level budget announcements by the government, as well as information published by the Improvement Service which builds on the OBR forecasts. There remains a significant risk that the UK economic recovery may be weaker and slower than has been projected by the Government. If the UK economy grows slower than forecast the Government will either need to extend the period for bringing the public finances back into balance or apply tax increases or further reductions in public spending.

Further detail on these fundamental risks is given in paragraphs 2.41 – 2.43 of the Financial Strategy (Appendix A).

Recognising the risks inherent in the projections allows the Council to consider these in the context of developing a budget strategy that is flexible enough to respond to the changing financial environment.

Revenue Budget Financial Projections - Conclusions

The financial projections work included in this financial strategy update builds on the work done in previous years. This exercise continues to be fraught with difficulty because of the reliance on assumptions and the many variables which can affect the figures. Notwithstanding the need to use the projections with caution they do provide a broad indication of the serious financial challenges which Angus Council faces over the next few years. The availability of this information provides a solid and transparent base from which to continue to plan future service provision and set future budgets.

Under the pessimistic assessment the Council could be faced with a cumulative gross funding gap between its costs and incomes of as much as £37.8m over the next 4 years. This reduces to £31.0m after adjusting for 2016/17 savings approved as part of the 2015/16 budget setting process. There is simply no prospect of this level of funding gap being met without current service provision being affected or requiring to change. However, by undertaking a programme of priority based budgeting, the Change Programme, service redesigns and continuing to plan well ahead on how budget savings will be made it is hoped that the effects on service provision and associated outcomes of these financial difficulties can be mitigated.

How Will The Strategy Be Used

It would be inappropriate to seek to use the strategy on a rigid basis, rather the strategy needs to be used flexibly and be able to be adapted to changing circumstances. Ultimately 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 exercises. A significant amount of savings have already been “banked” for 2016/17 which puts the council in a good position but further savings will need to be identified to deliver balanced budgets over the next 3 / 4 years.

Strategy Development & Updating

It is intended that the strategy set out in this report be developed and updated to take account of new information, etc. as it becomes available. The strategy will be updated on an annual basis so that the Council has a rolling 4 year financial strategy in place 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 Financial Strategy 2016/17 – 2019/20 Update
Annex 1 (to Appendix A) – Call on Capital Resources 2014/15 – 2018/19