Angus Council

Medium Term Financial Strategy
2016/17 to 2019/20 Update
(General Fund Services)

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Angus Council Medium Term Financial Strategy 2016/17 to 2019/20 Update

Table of Contents

SECTION 1 – BACKGROUND & NEED FOR A FOR A MEDIUM TERM FINANCIAL STRATEGY

1.1 As a matter of good business practice all organisations should plan ahead in order to achieve their objectives. The Council has a well developed system for forward planning at both a corporate and individual service level as well as a strong track record in financial management and planning but despite all of the robust arrangements in place the Council is continuing to face the most challenging of circumstances since its creation in 1996. In light of the unprecedented financial climate that the Council faced at that time, the first medium term financial strategy covering the period 2010/11 to 2013/14 was approved by the Council at its meeting on 25 June 2009 (report 510/09 refers). This strategy set out the financial challenges ahead and began to map out how the Council might meet these challenges through efficiency reviews and cost reduction strategies. A commitment was given to review this strategy annually to give a rolling four year financial strategy to facilitate forward planning.

1.2 This document is an update to the Strategy approved in June 2014 (report 271/14 refers). The focus for this update is on the key areas of change for the period 2016/17 to 2019/20 and the projected funding shortfall over that period. The full strategy document approved in June 2012 can be found via the following link:-
http://www.angus.gov.uk/ccmeetings/reports-committee2012/AngusCouncil/383.pdf

1.3 The need for a medium term financial strategy has been set out in previous strategy documents but it is considered important to emphasise that future service provision in Angus needs to be driven by clear policy objectives so that the limited resources available to the Council can be allocated on a priority based approach. In May 2015 the Council approved the adoption of priority based budgeting (PBB) as the approach to preparation of future revenue budgets. Reports 196/15 and 240/15 set out plans to amend the budget setting process to better align the council's resources to the service areas considered high priority and with a focus on delivering the outcomes the Council wishes to achieve. Work has commenced on this as part of the preparation of the 2016/17 and beyond budget setting process. It is recognised that this is difficult to achieve in practice because so many of the Council's services are seen as valuable or essential, but it is essential that the Council continues to build on the work that has already commenced to continue to seek to better align resources to priorities.

1.4 A further change to the budget process was that as part of the 2014/15 budget exercise savings for 2015/16 and 2016/17 were approved in advance thus allowing them to be "banked" against future years savings targets/requirements. These savings for 2016/17 (as amended during the 2015/16 budget setting process) total £6.8 million and by taking this longer term approach to savings proposals this ensures that the council is well placed to set balanced budgets in future years. These savings will help address the funding shortfall identified in this update.

1.5 Whilst the need for a policy driven approach to resource allocation is undoubtedly the best way forward, the Council must first have an appreciation of the resources and the constraints on those resources which are likely to exist so that policy decisions can be taken on an informed basis.

1.6 This document sets out an update on the proposed Financial Strategy for Angus and incorporates:-

Revenue Budget Financial Projections (2016/17 to 2019/20)
Capital Budget Financial Projections (2016/17 to 2019/20)
Efficient Government Agenda
An Outline Strategy of Cost Reduction Requirements to Balance Future Budgets

1.7 The remainder of this Financial Strategy document focuses on the above areas in turn.

SECTION 2 - REVENUE BUDGET FINANCIAL PROJECTIONS- UPDATE (2016/17 TO 2019/20)

Purpose of the Projections

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

2.2 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 service / efficiency reviews. The availability of the projections information enables informed decision making about policy priorities and future service levels and demonstrates the Council's commitment to medium term service and financial planning.

Background to the Projections

2.3 Making financial projections is a difficult exercise for an organisation such as the Council which is subject to unpredictable demands for service, regular 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 this exercise is undertaken to inform future service delivery / efficiency plans.

2.4 The projections are based on a detailed review of all of the Council's main costs and incomes and as a result of the lack of certainty over many of these it means that the projections have not sought to apply the level of precision and detailed calculation that would normally apply to the preparation of the Council's annual budget. The projections are, rather, based on broader assumptions over what may impact on costs and incomes over the 4 year period. The projections will therefore be subject to significant refinement as part of the annual budget setting processes but they do provide a broad indication of the Council's projected financial position based on the assumptions made.

2.5 A Comprehensive Spending Review is currently being undertaken, which will provide details of the Scottish Block grant allocation for 2016/17. Details of grant allocations at individual Council level are unlikely to be available until late December 2015. Estimates for Government Grant for 2016/17 – 2019/20 are therefore based on very high level projections for public spending from the Office of Budget Responsibility (OBR) and the Improvement Service. **The lack of any real information on future grant allocations means that this element of the financial projections is little more than guesswork at this stage and may therefore require to be revisited once the outcome of the Spending Review is known.**

2.6 The introduction of the Scotland Act 2012 represented a significant transfer of fiscal power to the Scottish Government. As well as introducing the power to set a new Scottish rate of income tax and borrowing powers over £5billion, the Act also devolved stamp duty, land tax and landfill tax to the Scottish Government.

2.7 Welfare Reform changes continue to have significant implications for local authorities with additional resources required to fund the Council Tax Reduction Scheme and additional support to be put in place to support vulnerable people. Additionally, there are wider proposals with regard to Public Sector Reform impacting on the structure of public services and service delivery mechanisms e.g. the ongoing impact onto local authorities of the Integration of Health and Social Care. This reform agenda is resulting in significant changes within the public sector as a whole which is impacting on local authorities' service delivery arrangements. At this stage however the potential impact arising from these issues cannot be determined with any certainty. In the absence of this essential detail the projections in this Strategy assume that, in the main, any further changes to service responsibility or service delivery mechanisms will be cost neutral at an individual local authority level.

Assumptions

2.8 Medium term financial projections such as those set out in this strategy document are based heavily on assumptions. Changes in these assumptions can have a material effect on the end outcome. The projections make assumptions falling into 3 broad categories:-

A) Issues which are known about or can reasonably be foreseen which will create upward pressure on costs e.g. pay inflation, PPP commitments, energy costs, etc.

B) Issues which can be anticipated as areas of budget risk but where the extent of the risk is uncertain e.g. the cost of the ageing population.

C) Issues which could create cost pressures and which are somewhat speculative at this stage but could still be reasonably expected to impact on the Council's costs e.g. waste recycling costs.

2.9 Clearly some assumptions are more material to the end results than others so listed below are the assumptions made on the most material items. All assumptions and costs are based on the 4 year period 2016/17 to 2019/20.

Pay Inflation & Pressures

2.10 Pay awards and other pay related cost pressures are assumed to cost around £12.3m over the 4 years which amounts to an average of around 1.5% for all categories of employee. These estimates are higher than the UK government's assumptions but seek to balance concerns about affordability and the need to restrict pay inflation, but which recognise that a continuation of the pay restriction may be difficult to achieve through negotiation.

2.11 The above figure also includes the additional costs for pay increments and potential cost increases arising from changes to employers' pension rates and National Insurance as well as £150,000 per annum in respect of increases to the living wage. The introduction of a single tier state pension from April 2016 will bring to an end the state second pension and contracting-out of National Insurance will be abolished. This will end the contracting out rebate for employers of 3.4% thus resulting in an estimated increase of £2.8m in pay related costs for Angus Council in 2016/17. This issue is under consideration by COSLA in an effort to mitigate the impact on local authorities but at present it is assumed this cost will need to be borne by the Council. In addition, a sum of £200,000 is assumed for costs arising in 2017/18 from auto-enrolment.

School & Public Transport Costs

2.12 It has been assumed that inflationary and tender price increases will add around £340,000 to the Council's costs over the 4 years. The projections assume a continuation of current service levels as a starting point but it is recognised that, in light of expected increases in tender costs, a review of service provision through the Passenger Transport project will help ensure the service remains sustainable and affordable within the context of constrained resources.

Demographic Change

2.13 This is an area of major concern especially in Older People's Services. Despite our enablement approach and efficiencies which may be achieved through ongoing service reviews it is recognised that changing demographics will bring additional pressure to council services; consequently an allowance of £1.4 million has been assumed over the 4 years towards costs associated with demographic changes. The Help to Live at Home project is anticipated to avoid some of this cost growth but this has not been factored into the projections at this stage given how early that project is in its lifecycle.

Third Party Inflation

2.14 The Council commissions services from other providers as an alternative to direct provision by its own staff. Payments to these third parties make up a significant part of the Council's costs, particularly in social care type services. Pay and general inflation will affect third party providers in much the same way as it affects the Council and the cost impact of this will be passed on to the Council in the charges made by third party service providers. Although the Council will require its third party providers to look at their own efficiency so as to minimise the cost impact on the Council it has been assumed that the cost increase will amount to around £2.8m over the 4 year period.

Waste Management Costs

2.15 The introduction of the Government's Zero Waste Plan and national targets for increasing recycling and reducing the use of landfill have placed a significant pressure on the Council's waste management costs in order to put new processes and procedures in place to meet these targets. These new processes and procedures are now being rolled out across Angus and this combined with national governments policy to only increase the landfill tax rates in line with RPI from 1 April 2015 will help to reduce the cost pressure on the council in this area. However a significant deterioration in the market for recyclates resulted in a new budget issues arising in 2015/16 which is likely to be on-going. Net growth of £800,000 (£200,000 per annum) over the 4 year period has been assumed. However, the Scottish Government's proposals for a new Scottish Landfill Tax could potentially result in further additional costs beyond those already anticipated in the latter part of the period covered by this Strategy but no allowance has been made for this risk. A further risk issue facing the Council in 2017/18 is the costs associated with the disposal of the Council's residual waste, due to new contract arrangements with a new waste disposal facility and an allowance for potential cost increases in this area has been allowed.

Energy Costs

2.16 The Council has been faced with significant rises in energy costs in recent years due to market conditions. Reductions in energy consumption due to energy efficiency measures combined with falling oil prices have however resulted in a significant underspend on energy in 2014/15, and estimated energy prices at this stage suggest that a reduction in the Council's energy budget provision could potentially be made for 2016/17. There is however thought to be a high risk of energy price increases in the future despite the benefits of collaborative procurement of energy. An overall net increase in the Council's energy budget provision, including street lighting, of £0.8m over the 4 years has therefore been assumed.

Capital Financed from Current Revenue (CFCR)

2.17 The projections assume a £0.700m provision for CFCR in 2016/17, which is in line with the sum allowed for in the 2015/16 base budget. This level of contribution is maintained for the period 2017/18 to 2019/20. This assumption is at variance from the assumptions set out in report 63/15 (the Long Term Affordability of the General Fund Financial Plan), but reflects the changed financial situation underpinning the preparation of these projections. Removal of this provision would be a savings option to help balance the budget if required.

Transforming Angus Change Fund

2.18 In setting the 2014/15 revenue budget, the council set aside resources to create the Transforming Angus Change Fund to support delivery of the Transforming Angus Change Programme. This is a fairly sizeable resource to give the council the financial capacity to pursue its change programme and deliver the necessary savings. The Fund will span a number of years and comprises a base provision of £904,000 in 2015/16 plus a sum of £1.888 million earmarked within General Fund balances, giving a total fund of £2.792 million for 2015/16 and beyond.

2.19 The projections assume that the ongoing base provision of £904,000 is expected to reduce to £250,000 in 2017/18 and zero in 2018/19, reflecting the timescales associated with delivery of the Change Programme. It is however recognised that there may been a need to revisit these assumptions as the Change Programme develops.

Core Government Grant

2.20 This is the single most critical assumption to the projections and in many ways is the most difficult to estimate.

2.21 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.

2.22 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.**

2.23 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.

2.23 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

2.24 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 can 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 funding to support 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.

2.25 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 however 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.

2.26 The projections also assume that the government grant which is conditional upon applying a freeze will continue until at least until 2019/20. The projections have however assumed that any funding in support of the tax freeze forms part of any grant settlement and the assumed decreases in 2016/17 – 2019/20, rather than any additional grant being available for a Council Tax freeze. In the event that any additional government grant is made available this would reduce the savings requirement presented in this report.

2.27 The Council Tax base for Angus increased in 2014 despite the economic climate and the ongoing impact on the housing market. Having regard to this and the fact that the country is expected to continue moving out of recession, the projections assume the tax base will grow by 0.5% in each of the 4 years.

Other Assumptions

2.28 In addition to the above listed main assumptions, further allowance for cost pressures and risks in areas such as PPP commitments, roads and winter maintenance, asset maintenance, carbon reduction commitment, etc. have also been made. The projections also assume that all one-off budget issues provided for in the 2015/16 budget will not be required in 2016/17 or beyond.

2.29 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 Table 1 below.

Projections Summary

2.30 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 departmental budget 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 the Transforming Angus programme, savings from services, service review savings, by taking budget risks and potentially Council Tax increases.

2.31 The level of budget savings identified does however assume that the budget pressures identified in the strategy require additional funding to address them. There are however other options available to the Council in order to reduce the funding gap e.g. reduction in the level of service or reduction in demand for services. It may be that opportunities exist to consider some of these options to help reduce upward cost pressure on the Council's budget and thus reduce the actual level of budget savings which require to be implemented when each year's budget is set. Such an approach fits well with the Council's revised approach to setting the revenue budget as well as the preventative spend agenda being promoted by the Scottish Government. Some preventative work may require upfront investment and involve long payback periods so it's important the Council make informed choices in this regard. Going forward the Transforming Angus Change Programme will be instrumental in identifying these options.

2.32 It is emphasised that the figures in Table 1 are a baseline projection and that variant projections on an optimistic and pessimistic basis have also been undertaken.

Table 1 – Summary of Projected Expenditure and Income and Funding Shortfall

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Total Angus Council Service Expenditure	232.6	231.8	231.4	231.3	231.6
Capital Financing Costs	14,2	14.1	14.5	14.9	15.3
Conversion of R & R to Prudential Borrowing	0.0	0.4	0.4	0.5	0
CFCR	0.7	0.7	0.7	0.7	0.7
Joint Boards	0.5	0.5	0.5	0.5	0.5
Use of Balances / Special Funds per existing drawdown strategies	4.4	0.9	0.5	0.0	0.5
Add Back Specific Grants	0.0	0.0	0.0	0.0	0.0
Net Expenditure Before Government Grant	**252.4**	**248.4**	**248.0**	**247.9**	**248.6**
Allowance for budget pressures (Category A)*	n/a	6.9	12.4	17.2	21.8
Allowance for budget pressures (Category B)*	n/a	1.1	1.8	2.7	3.5
Allowance for budget pressures (Category C)*	n/a	0.2	1.4	1.6	1.8
Revised Net Expenditure (before Govt. grant)	**252.4**	**256.6**	**263.6**	**269.4**	**275.7**
Less Government Grant	(205.5)	(202.4)	(200.3)	(198.2)	(197.9)
Less Council Tax (assuming no increase in charge)	(46.9)	(47.1)	(47.3)	(47.6)	(47.8)
Total Funding Shortfall (cumulative)*	Nil	7.1	16.0	23.6	30.0
Total Funding Shortfall (annual)	**Nil**	**7.1**	**8.9**	**7.6**	**6.4**

*- figures shown for these items are cumulative

2.33 The projections indicate that a total funding gap of £30.0m over the 4 year period of the Strategy, which is equivalent to 14.0% on the 2015/16 budgets, or 3.5% per annum on average. 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. A number of options exist to bridge this funding gap and these are considered below.

Link to Efficient Government Agenda

2.34 Section 4 of this strategy document outlines the Council's approach to reviews which fit under the umbrella of the Government's efficiency 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 this Financial Strategy.

Implications for Departmental Budget Savings

2.35 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. It is worth noting this is before adjusting for savings already approved for 2016/17.

Sensitivity Testing

2.36 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. The base projection per Table 1 above assumes that a funding gap of £30.0 million will exist over the 4 year period which would equate to circa 14.0% overall of savings in departmental budgets. The sensitivity tests indicate that the level of funding gap could vary as shown in Tables 2b and 2c below. Table 2a is the base projection position per Table 1 for ease of reference / comparison.

Table 2a – Estimated Funding Gap (Base Projection)

	2016/17 £m	2017/18 £m	2018/19 £m	3 Year Total £m	2019/20 £m	**4 Year Total £m**
Funding shortfall	**7.1**	**8.9**	**7.6**	**23.6**	**6.4**	**30.0**
% age Level of Savings Needed	***3.3%***	***4.2%***	***3.5%***	***11.0%***	***3.0%***	***14.0%***

Table 2b – Estimated Funding Gap (Optimistic View)

	2016/17 £m	2017/18 £m	2018/19 £m	3 Year Total £m	2019/20 £m	**4 Year Total £m**
Funding shortfall	**6.1**	**8.2**	**5.9**	**20.2**	**5.6**	**25.8**
% age Level of Savings Needed	***2.9%***	***3.8%***	**2.7%**	***9.4%***	***2.6%***	***12.0%***

Table 2c – Estimated Funding Gap (Pessimistic View)

	2016/17 £m	2017/18 £m	2018/19 £m	3 Year Total £m	2019/20 £m	**4 Year Total £m**
Funding shortfall	**8.0**	**11.5**	**9.2**	**28.7**	**9.1**	**37.8**
% age Level of Savings Needed	***3.7%***	***5.4%***	***4.3%***	***13.4%***	***4.2%***	***17.6%***

2.37 It will be noted from Tables 2b and 2c that applying sensitivity testing can result in significant changes to the outcomes. Taking an optimistic view on future cost pressures and government grant indicates a 3 year savings requirement of £20.2m (9.4% overall), increasing to £25.8 million (12.0%) over the four year period, which would equate to average annual savings of circa 3%. The pessimistic assessment suggests total savings over the 3 year period £28.7m could be required (13.4% overall) which increases to £37.8 million (17.6%) over the four year period, which would mean an annual average savings requirement of circa 4.4%.

2.38 It should also be noted that in setting the 2015/16 budget a package of savings totalling £6.8 million for 2016/17 were agreed. Further comment on the implications for budgets and savings requirements arising from the financial projections is given in Section 5 of this Financial Strategy.

<u>Risk and Issues</u>

2.39 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 on government grant levels and pay awards. The sensitivities are therefore essential to understanding the range of possible outcomes for the Council albeit this makes it more challenging to find the best basis upon which to take forward a strategic approach to future budget planning.

2.40 In considering the funding gap and developing a budget strategy, it is essential that the risks inherent in these projections are fully understood. There are number of risks to the projections but three of these are considered to be fundamental risks which members are asked to bear in mind as follows:-

<u>Fundamental Risks</u>

2.41 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. Ultimately the Scottish Government will decide how the Scottish Block is allocated and if, for example, the Government decides, as part of the next Scottish

Spending Review, to offer a greater degree of protection to non-local government services such as health this **could result in further grant reductions for local authorities, including Angus Council.**

2.42 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. As part of budget announcements in recent years, local authorities have been presented with a funding package that came with a number of caveats and conditions as part of an all inclusive package. Failure to accept the proposed package would have resulted in a significant reduction in grant. Although the proposed funding package from Government offered local authorities a choice, that choice was a stark one having regard to the financial implications of not accepting the terms of the funding offer. If this approach is to be applied in future years this will present local authorities with further significant challenges to deliver balanced budgets while seeking to maintain frontline services.

2.43 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.

Other Key Risks

2.44 Other key risks to the Strategy and projected savings requirements are:-

The one-off growth funded in setting the 2015/16 revenue budget reoccurs in 2016/17 and beyond, thereby increasing the budget pressures beyond the sum currently allowed for in the projections;

The level of pay settlements agreed exceed the levels assumed in the projections, albeit this is considered to be unlikely, but is nevertheless a risk.

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

Revenue Budget Financial Projections - Conclusions

2.46 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.

2.47 Under the pessimistic assessment the Council could be faced with a cumulative funding gap between its costs and incomes of as much as £37.8m over the next 4 years. 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.

SECTION 3 - CAPITAL BUDGET FINANCIAL PROJECTIONS (2016/17 TO 2019/20)

Background

3.1 Report 63/15 approved by the Council in February 2015 outlined the results of a long term affordability review on the General Fund Financial Plan. That report effectively set out the Council's capital budget strategy and financial projections for the period up to 2018/19 and included the Council's General Fund Financial Plan for 2014/15 to 2018/19. This section of the medium term financial strategy is largely drawn from Report 63/15 on a summarised basis.

3.2 The Council's General Fund Financial Plan for the period 2014/15 to 2018/19 was set under the self regulating Prudential Code. The Prudential Code requires the Council to consider the affordability and sustainability of its capital spending plans.

2015/16 Local Government Finance Settlement - Capital Funding

3.3 Finance Circular 9/2014 (of 11 December 2014) provided updated details of provisional funding allocations for 2015/16. The main implications for capital funding from this circular were set out in the Background Report to the Special Budget Meeting of Angus Council on 12 February 2015 (report 59/15 refers). The following specific points are highlighted in respect of the settlement:

- the formal offer of general capital grant for 2015/16 adjusted the funding allocation to remove the council's £1m contribution towards the Next Generation Broadband – Step Change 2015 Programme (with £1m having already been removed in 2014/15).
- grant aid of £9.205m for the Brechin Flood Prevention Scheme was included (with £3.901m having already been received in 2014/15).

3.4 In summary however, Angus Council has been awarded total capital funding of £22.845m for 2015/16, including the aforementioned broadband adjustment and additional resources for Brechin Flood Prevention Scheme.

Summary of Capital Spending Plans to 2019/20

3.5 The 2014/2019 Financial Plan agreed by members in February 2015 (as adjusted to reflect spending decisions agreed on the day) sets out the Council's specific capital spending intentions up to and including financial year 2018/19. The long term affordability analysis then made assumptions about spending levels thereafter to give the levels of expected spend in the period to 2019/20 set out in Table 3 below.

Table 3 – Summary of Net Capital Expenditure 2015/16 to 2019/20

	Year 1	Year 2	Year 3	Year 4	Year 5
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Projected Net Capital Expenditure	49.507	21.369	15.615	9.060	14.000

Priority Projects

3.6 Members will recall the move to a capital project prioritisation process and the list of priority capital projects that was subsequently agreed and which formed the basis of the 2013/2018 Financial Plan (reports 85/14 and 87/14 refer). The continuing priority of these existing projects in the capital programme was agreed by the Policy & Budget Strategy Group (PBSG) at their meeting on 19 December 2014. The PBSG also considered a number of bids for new priority projects and agreed that the following should be added to the 2014/2019 Financial Plan:

- £4.576m for phase 3 of the Arbroath Schools project;
- £1.600m for additional property capital maintenance;
- £1.500m for additional Roads preventative capital maintenance;
- £1.000m for Schools & Learning information and communication technology equipment (£0.250m per annum for 4 years from 2015/16);

- £0.397m for maintenance / refurbishment of industrial units;
- £0.107m towards ongoing cell opening / capping at Restenneth landfill site.

3.7 The list of priority projects approved at February's special budget meeting is attached as **Annex 1** for information.

3.8 In respect of the 2019/20 financial year, capital project priorities will be considered as part of the 2016/17 budget setting process and this may include re-consideration of those projects currently presented on Annex 1 as lesser priority or "below the line".

Affordability Analysis

3.9 The General Fund Financial Plan affordability analysis covers a 25 year period and looks at the following components:

- the Council's loan charges grant;
- the Council's loan charges budget;
- the Council's existing loan charges commitments (unavoidable costs);
- the impact of the special repayment strategy;
- estimated levels of capital expenditure;
- estimated levels of capital grants;
- estimated levels of capital receipts and other contributions; and
- estimated levels of borrowing.

3.10 This analysis has involved using estimates and making assumptions which will no doubt change over time but the analysis is considered to be both robust and reasonable based on known information at the time it was carried out. The key assumptions made are set out in detail in report 63/15, but the following is a high level summary of those key assumptions:-

Loan Charges Grant

3.11 The level of grant is known for 2015/16 based on the latest Spending Review (£9.820m). Projections have been made for the period thereafter based on the calculation detail supplied by the Scottish Government as part of the Spending Review and it has been assumed that the removal of supported borrowing will be permanent. Loan charges grant support levels thus reduce year on year and over the period covered, are projected to fall to zero by 2035/36.

Loan Charges Budget

3.12 Loan charges budget of £14.157 million has been assumed for 2015/16 (as adjusted to reflect spending decisions agreed on the day). From 2016/17 onwards it has been assumed that additional annual general revenue resources of £0.250 million will be applied in respect of the loan charges budget in order to address the reducing grant levels, previous spending / borrowing decisions and provide resources to support a reasonable capital programme into the future. Whilst not without consequences for other parts of the revenue budget, it is thought that these levels of additional resources ought to be sustainable without adversely affecting future levels of required budget savings.

3.13 Notwithstanding the assumed additional general revenue resources however, the reducing nature of the loan charges support grant results in a reducing overall loan charges budget over the period of the long term affordability analysis. The budget for each year of the analysis has therefore been assumed to represent a maximum level for loan charges costs and the overall affordability position is therefore based on not breaching the assumed budget level in future years.

Existing Commitments

3.14 Whilst the principal repayments on existing borrowing commitments are known with certainty, assumptions have been made on future interest and expenses rates in order to project forward the overall loan charges costs arising from past and future expenditure and borrowing. In this regard, the following interest rates have been assumed:

- 4.80% for 2014/15 to 2016/17;
- 4.85% for 2017/18;
- 4.90% for 2018/19;
- 5.00% for 2019/20 to 2023/24;
- 5.25% for 2024/25 to 2028/29;
- 5.50% for 2029/30 to 2033/34; and
- 5.75% for each year thereafter.

3.15 In respect of debt management expenses, a rate of 0.08% has been applied in all years.

Projects Funded Under Departmental Borrowing

3.16 The Council has undertaken a number of projects under a "departmental borrowing" approach whereby the loan charges costs arising are being met from income generated or otherwise from departmental revenue budgets. For the purposes of the affordability projections departmental borrowing type projects have been excluded on the basis that any loan charges arising will be covered by resources outwith the main loan charges budget and loan charges grant.

Capital Grants & Other Contributions

3.17 With the removal of supported borrowing, General Capital Grant is one of the Council's principal sources of funding capital expenditure (borrowing being the other). In light of the above, the following General Capital Grant levels are included / assumed within the ongoing long term affordability analysis:

- £22.845m for 2015/16 (per settlement announcements);
- £6.505m for 2016/17 (assumed core grant of £10.000m reduced to reflect an expected grant adjustment in respect of the final cost / funding position of the Brechin Flood Prevention project); and
- £10.000m per annum for each year thereafter (assumed ongoing core grant).

3.18 Members are asked to note however that there is some risk in the above assumptions - namely:

- further capital grant reductions may apply in the future;
- supported borrowing may be reintroduced; and
- the planned future re-increase in capital resources may not happen if a national balanced structural current budget cannot be achieved.

3.19 In relation to other external contributions the affordability projections have taken these into account where they are already known and identified within the 2014/2019 Financial Plan. In the later years of the financial plan the possibility of such funding sources being available has however largely been ignored on the basis that should they become available this would augment the assumed level of capital expenditure in those years.

Contributions from the Revenue Budget / Capital Fund

3.20 No revenue budget contributions beyond 2015/16 were assumed in the capital affordability analysis in Report 62/15, albeit the updated revenue budget projections assume this level of contribution is maintained going forward. Likewise, no contributions from the Capital Fund are anticipated beyond 2015/16.

Capital Receipts

3.21 Notwithstanding the difficulties and the inherent risk with realising capital receipts the affordability analysis assumes that non ring-fenced capital receipts of £500,000 per annum will be achieved up to and including 2018/19. From 2019/20 onwards capital receipts have only been assumed at a level of £100,000. In the event that capital receipts exceed these estimated levels this will reduce the Council's need to borrow and therefore create some headroom within the loan charges budget.

New Borrowing

3.22 The affordability projections have estimated the level of new borrowing required after taking into account all of the other assumptions about capital expenditure, capital grants, capital receipts, etc. and this in turn has been used to calculate estimated loan charges costs into the future.

3.23 Members are asked to note that assumed ongoing removal of supported borrowing is expected to result in relatively modest capital allocations being affordable to the Council in the future. In this regard, the levels of new borrowing up to 2018/19 are determined by the projects in the Financial Plan. Thereafter an annual net capital allocation of £14m and associated annual new borrowing of circa £4.350m has been assumed.

Inflation

3.24 The affordability analysis does not make specific allowance for the effects of inflation beyond the period of the Financial Plan. Whilst this will mean the true purchasing power of the assumed capital expenditure total into future years will gradually be eroded, inflation has also been ignored in relation to capital receipts, capital grants and loan charges support from the Scottish Government on the basis that its effects are assumed to be broadly neutral.

Overall Summary Position

3.25 The affordability analysis brings together a large volume of data and makes a number of assumptions. Table 4 below summarises the key figures in this regard for the period 2015/16 to 2019/20. The figures in Table 4 have been amended from the position outlined in Report 63/15, following agreement at the budget setting meeting on 12 February 2015 to an additional £3.750m of borrowing, funded by the conversion of R&R resources to core loan charges budget.

Table 4 – Affordability Analysis – Summary Position

	Year 1	Year 2	Year 3	Year 4	Year 5
	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Capital Expenditure	**49.507**	**21.369**	**15.615**	**9.060**	**14.000**
Estimated Borrowing	**18.498**	**9.859**	**1.688**	**0.645**	**3.723**
Loan Charges :-					
Existing Commitments	10.369	10.407	10.044	9.941	10.032
Special Repayments	1.000	1.000	1.000	1.000	1.000
From New Borrowing	0.894	1.897	2.404	2.530	2.682
(A) Total Loan Charges	**12.263**	**13.304**	**13.448**	**13.471**	**13.714**
(B) Amount Set Aside For Following Year CFCR	1.894	0.841	0.673	0.627	0.360
(c) Maximum Loan Charges Budget	14.157	14.145	14.121	14.098	14.074
(D) Budget Headroom / (Issue) (C) – (A+B)	**0**	**0**	**0**	**0**	**0**

3.26 The analysis shows particularly high borrowing levels in financial years 2015/16 and 2016/17 - this can largely be attributed to the borrowing projected to be required in respect of the Brechin High School Community Campus and Arbroath Primary Schools projects. <u>Thereafter only relatively modest levels of new borrowing are projected to be affordable.</u>

Special Repayment Strategy

3.27 The affordability projections allow for special repayments of principal (debt) at a maximum of £1m per annum, subject to headroom to this level being available within the loan charges budget. In this regard, the updated long term affordability position in Table

4 above assumes that special repayments of approximately £5.0m may be available over the period 2015/16 to 2019/20.

Key Risks and Issues

3.28 The main risks to the capital budget projections set out in this strategy relate to government funding for capital generally but as explained above the potential impact on public spending levels has been allowed for within both the capital and revenue budget projections set out in this strategy document.

3.29 The other main risk continues to be in relation to the funding assumption for Arbroath Flood Strategy which the Council has an intention to take forward. The approximate value of the project is £10.5m gross spend and assumes that government grant of £9.1m will be available to support it. Whilst the Council was successful in its application for government grant with regard to Brechin Flood Prevention Scheme, in the ongoing context of restricted public spending this level of government financial support is not guaranteed. What this project will look like moving forward will therefore very much depend on the outcome of any grant funding application process.

3.30 In terms of policy implications the affordability analysis confirms that there is likely to be a significant limitation on the scope to introduce new projects into the Financial Plan over the next few years. Should new projects come forward for consideration over the current period of the Financial Plan, they will only be affordable if existing projects are deferred, removed or amended, or a conscious decision taken to divert additional revenue budget resources towards supporting loan charges costs (**i.e. the Council cannot simply keep adding to its intended capital spending**).

SECTION 4 – EFFICIENT GOVERNMENT AGENDA

Background

4.1 The revenue budget financial projections at Section 2 of this strategy document make clear that the Council faces some major financial challenges in the years ahead and significant cost savings are required in order to balance future budgets. In order to limit the impact of such savings on service delivery it is essential that the Council continues to deliver a programme of efficiency/service reviews. This section of the Financial Strategy outlines the Council's approach to reviews which fit under the umbrella of the Government's efficiency agenda.

Challenges Faced in Making Efficiency Savings

4.2 It is important to appreciate that "efficiency savings" are not a soft option capable of easy delivery and the challenge of finding further significant efficiency savings should also not be underestimated given the efficiencies which Angus Council has already driven out of its services and budgets (around £29m of efficiencies cash and non-cash since 2005/06).

4.3 The efficiency agenda has evolved in recent years with the findings of the Christie Commission and the government's response to these findings, which clarified some of the broader changes that will be need to be addressed nationally moving forward. These key areas are:-

- Shift towards preventative spending;
- Integration of services;
- Focus on performance;
- Enabling the workforce.

4.4 In responding to these national challenges the Council has sought to align its work with these key areas in order to deliver improvements. This new approach is reflected in our corporate improvement programme entitled "Transforming Angus" and in turn our approach to efficiency reviews (report 13/12 refers).

4.5 "Transforming Angus" is a key enabler in the delivery of the council's change programme by creating a single focus for transformational activities and promoting a culture of change within the council. This change programme encompasses a number of work streams, including Angus Digital, Agile Working & Estates Review etc and is designed to ensure that at a time of diminishing financial resources the council is engaged in a change programme that drives maximum benefit from its available resources, while meeting agreed priorities designed to deliver better outcomes. The key priorities of the programme are set out in the 2014-2017 Council Plan (report 155/14 refers).

4.6 In addition, as part of the more medium term outlook to the delivery of budget savings proposals, a number of service reviews are currently being undertaken by officers, with a view to delivering efficiency savings for 2016/17 – 2018/19. These cover key areas of service delivery and the reviews are intended to provide clear proposals for changes to service delivery that may generate savings and / or allow improvements to existing services by better utilisation of existing resources.

4.7 The council is also continuing to progress the procurement workstream aimed at delivering service improvements and/or efficiency savings.

4.8 Whilst not all of these work streams may achieve cashable savings in 2016/17 or beyond they may instead deliver mainly non-cash savings e.g. time/ process savings, or reduce future year potential budget calls through the application of the review recommendations. The achievement of non-cash savings is therefore envisaged to continue to be part of the Council's efficiency approach.

Angus Council Efficient Government Target

4.9 The Scottish Government continues to expect every public body, including local authorities to deliver efficiency savings of at least 3%, albeit this has not been translated into an efficiency target at an individual local authority level. Each local authority continues to be required to prepare and submit an annual efficiency return detailing the level of efficiency savings (cash and non-cash) delivered.

4.10 In the absence of a formal target for efficiency savings over the period covered by the Financial Strategy it is suggested that the Council seek to make annual efficiency savings of up at least 1% on its core revenue expenditure excluding Joint Board services, capital financing costs and PPP commitments. This is considered to be a realistic target for identifying genuine efficiency savings. A 1% target would imply an annual efficiency saving requirement of approximately £2m. It is further suggested that this target be split into a cashable target of 0.75% (£1.5m) and a non-cash target of 0.25% (£0.5m). This is consistent with the approach adopted in the Medium Term Financial Strategy (2015/16 – 2018/19). Over the 2016/17 to 2019/20 four year period the cashable savings target would total £6m and non-cashable £2m giving a combined and challenging total of £8m.

Achieving The Targeted Level of Cashable Efficiencies

4.11 The revenue budget financial projections indicate that gross savings of £30.0 million will be required over the next four years. It is expected that part of future budget savings will continue to be in the form of transformational or efficiency savings which will count towards the Council's overall target.

4.12 In developing the 2015/16 to 2018/19 Medium Term Financial Strategy, it was considered reasonable to continue to assume that an element of future budget savings will be of an efficiency nature and a target of 25% was established. In setting the 2014/15 revenue budget a 3 year package of savings totalling £18.728 million was approved. This was later revised to £18.470 million in setting the 2015/16 revenue budget (report 60/15 refers) of which £7.490 million (41%) was considered to be cashable efficiencies. This put the council in a good position to deliver on its efficiency target over the period 2014/15 to 2016/17 but having regard to the level of budget shortfall that remains and the need to deliver on the Scottish Government's target, it is considered appropriate to continue to seek to ensure that a minimum of 25% of future total budget savings will be cashable efficiencies.

SECTION 5 - COST REDUCTION REQUIREMENTS TO BALANCE FUTURE BUDGETS

Background

5.1 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 analysis is not revisited in this update but there are some relevant issues that are considered worth reiterating.

5.2 The focus on the above has been about understanding the Council's cost base and income streams and taking a view on where there may be scope to change these. There are however a number of other issues relevant to the achievement of future budget savings as follows:-

- Since 1996/97 budget savings/cuts exercises have taken approximately £79 million in total out of the Council's revenue budget, including £2.4 million of corporate efficiency savings which have been delivered over the last 7 years.

- A further £6.8 million of budget savings have been approved by the council for implementation in 2016/17.

- Since 2005/06 and including efficiencies already included in the budget savings the Council has made efficiency savings of around £29m (cash & non-cash).

- Attempts to make savings in front line services e.g. school closures and other service rationalisations have proved to be difficult for elected members and the general public alike.

- The Council has undertaken work to seek to identify the relative priority of council services and these need to be utilised to good effect going forward to identify which of the Council's services are genuine priorities vis-à-vis other services i.e. to date it has been difficult to identify lower priority services.

5.3 The above points merely highlight the challenges faced by elected members and Council staff in identifying acceptable savings options so that future budgets can be balanced.

OPTIONS FOR ACHIEVING BUDGET SAVINGS REQUIRED

Assessment of Options Available

5.4 The Council is required by statute to set a balanced budget each year and this means that projected gaps in funding in future years present a real and unavoidable problem for the Council which will force members and officers to make difficult and highly challenging decisions out of necessity.

5.5 At the broadest level there are relatively few options available to the Council to achieve ongoing budget savings/cost reductions outwith the main efficiency/service review programme. The main options available are:-

- Savings from corporate (council-wide) budgets
- Management of budget risks
- Savings from service budgets

Savings from Corporate (council-wide) Budgets

5.6 The Council's budget is dominated by expenditure incurred by its various directorates in providing services. There are therefore very few "corporate" budgets from which savings can be made. The main sources of potential corporate budget savings in the years ahead will therefore be in:-

- Loan Charges
- Capital Financed from Current Revenue (CFCR)
- Renewal & Repair Fund Allocations
- Interest on Revenue Balances

5.7 In terms of Loan Charges the Council has a long term capital affordability strategy which provides a good base from which to consider future reductions in loan charges costs or reductions in capital spending. There may be scope to review the levels of special repayments within the capital affordability strategy in the short term but this will create long term problems for the Council and will therefore require careful consideration. This combined with the removal of supported borrowing from 2011/12 onwards means that the level of loan charges revenue grant support is reducing over time.

5.8 Reductions in loan charges costs as a means of achieving budget savings may therefore mean that the Council has to curtail its capital spending in future and this would result in less money being available for investment in essential infrastructure such as schools, roads and care establishments.

5.9 There is very limited scope to change what the Council does on R&R Funds because many services are heavily reliant on this funding source. It seems likely that demand for R&R funding will continue to grow rather than recede in future as reductions in mainstream maintenance budgets take effect. The Council does have in place a Special Funds Strategy aimed at delivering an agreed level of R&R spend per annum but the existing strategy will be exhausted by 2018/19.

5.10 The Council has traditionally fared well in generating good levels of interest income from its surplus cash and reserves but the current economic situation has severely restricted this as a source of income. This is not therefore likely to be a source of significant corporate savings in the immediate future.

<u>Management of Budget Risks</u>

5.11 Budget setting is not an exact science and invariably budgets will be based on assumptions and will include an element of risk. A key part of each year's budget setting exercise is about determining the extent of budget risk which it may be possible to take. In an environment where resources are scarce and savings are having to be applied it doesn't make sense to try to budget for all possible risks on the basis that this will usually mean extra savings being required in some areas to provide budget provision in other areas which may ultimately not be fully used if the anticipated risk does not fully materialise.

5.12 Essentially each budget the Council sets includes an element of risk whereby Directors have agreed to try to manage costs and services within the resources provided knowing that circumstances may mean that the budget won't be sufficient. Perhaps the best example of budget risk is in relation to the winter maintenance budget where the Council budgets for a level of costs based on an "average" winter. Winter maintenance spend is very difficult to predict so the budget is set on a balance of probabilities which includes a risk of overspend against that particular budget.

5.13 The management of budget risks will therefore continue to be a feature of the Council's budget setting in the future. Given the financial pressures the Council will undoubtedly continue to be under in future years it is reasonable to assume that there will continue to be a need for budget risks to be managed and this therefore will continue to be an option for the Council in setting a balanced budget. This is however a very delicate balancing act because seeking to manage too much budget risk might ultimately create significant financial problems for the Council. The management of budget risks must never be allowed to undermine the need to make proper provision for unavoidable costs – the Council must therefore strike a sensible balance in the level of budget risk it takes in future budget setting exercises.

Savings from Service Budgets

5.14 The revenue budget financial projections set out in Section 2 of the Financial Strategy indicate that a total funding gap over the 4 years of between £25.8m and £37.8m could exist with the base projection assuming that £30.0m of savings will be required.

5.15 Savings for 2016/17 have already been approved and savings from corporate (council-wide) budgets and the management of budget risks may ultimately assist in narrowing down the amount of savings required in service budgets; these will however continue to be the main source of balancing future budgets. Table 4 below details the estimated funding gap after adjusting for approved savings:-

Table 4a – 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 4b – 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 4c – 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%***

5.16 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.

5.17 Looking at the optimistic view on future cost pressures and government grant, the adjusted 3 years saving requirement is £13.4 million (6.3%) increasing to £19.0 million (8.9%) over 4 years.

5.18 The pessimistic assessment 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.

5.19 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.

5.20 The level of budget savings identified assumes that the budget pressures identified in the Strategy require additional funding to address them and that all of the savings "banked" for 2016/17 are delivered. There are however other options available to the Council in order to reduce the funding gap e.g. reduction in the level of service or reduction in demand for services. It may be that opportunities will be identified via the Change Programme as well as the other reviews ongoing at this time and that these may identify options to help reduce upward cost pressure on the Council's budget and thus reduce the actual level of budget savings which require to be implemented when each year's budget is set.

SECTION 6 – CONCLUSIONS

6.1 Angus Council faces enormous service and financial challenges over the next few years and the Council needs to be ready and able to meet those challenges. This Medium Term Financial Strategy provides a firm basis upon which to take forward future service and budget planning and begin to meet the challenges ahead.

6.2 This update maps out a clear view of what is likely to be required in order to balance future budgets. The update has projected ahead on both revenue and capital budgets to identify the actions in relation to corporate/efficiency reviews, departmental budget savings and policy prioritisation which the Council needs to take.

6.3 Angus Council cannot directly influence much of the financial pressures and grant restrictions which are expected to affect the Council's finances over the next few years. The Council can however be proactive in anticipating the problems ahead and begin planning for how these problems may be addressed on a basis which protects service levels to the public as far as is possible.