

ANGUS COUNCIL**MEETING OF ANGUS COUNCIL – 27 OCTOBER 2016****MEDIUM TERM FINANCIAL STRATEGY 2017/18 TO 2020/21****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 2017/18 to 2020/21. 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 2017/18 to 2020/21 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 the risks and uncertainties in the assumptions underpinning the strategy as set out in Section 5 which may require adjustment to the strategy to cope with changing circumstances;
- (d) note in particular that the projections of government grant contain a very high degree of uncertainty and may require to be revisited once the outcome of the Spending Review is known; and
- (e) 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 both the medium term financial strategy agreed in June 2015 (report 347/15), and the interim update which was agreed in March 2016 (report 121/16) and covers the 4 year period 2017/18 to 2020/21. 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 (2017/18 to 2020/21)

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 (2017/18 to 2020/21)

This section is drawn from the long term affordability work undertaken as part of the 2016/17 budget setting process and is based on the position set out in Report 60/16 approved by the Council in February 2016. Specific issues and risks in relation to future capital spending are highlighted within this section of the Strategy.

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 2017/18 TO 2020/21

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 a number of items, the detailed explanations for which are included in paragraphs 2.10 to 2.28 of Appendix A:-

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 2016/17. The UK Chancellor will make the Autumn Statement announcement on 23 November 2016. The Scottish Government will announce the results of its 2016 Spending Review thereafter, with announcements relating to grant allocations to Councils unlikely to be made until mid-late December. The expectation is for a 1 year only settlement covering only 2017/18.

It remains to be seen whether the new UK Government takes the same approach to public finances and austerity as that which the Government led by David Cameron applied. The

projections in this report assume a continuation of severe financial constraint and austerity but the new Government's policy in this respect will not be known until 23 November 2016.

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 baseline projections currently assume a 1.5% reduction in core government grant in each of the 4 years covered by this Strategy. The anticipated reductions in loan charges support grant are in addition to the reductions in core grant applied from 2017/18 to 2020/21.

Based on these projections the Council's revenue grant support is projected to reduce by circa £11.9 million over the 4 year period 2017/18 – 2020/21. 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 impact of "Brexit" on the economy is a further source of uncertainty. 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. 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 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.

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

	2017/18 £000	2018/19 £000	2019/20 £000	3 Year Total £000	2020/21 £000	4 Year Total £000
Total Funding Shortfall (annual)	11,700	9,600	9,800	31,100	9,600	40,700

Implications for Budget Savings

Table 1 above illustrates that the funding shortfall in 2017/18 is £11.7 million with further funding gaps of £9.6 million in 2018/19, £9.8 million in 2019/20 and £9.6 million in 2020/21 giving a total shortfall of £40.7 million over the four years.

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 £29.8m (optimistic) and £51.5 million (pessimistic).

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

Table 2a – Estimated Funding Gap (Base Projection)

	2017/18 £m	2018/19 £m	2019/20 £m	3 Year Total £m	2020/21 £m	4 Year Total £m
Funding shortfall	11.7	9.6	9.8	31.1	9.6	40.7
% age Level of Savings Needed	5.5%	4.5%	4.6%	14.6%	4.5%	19.1%

Table 2b – Estimated Funding Gap (Optimistic View)

	2017/18 £m	2018/19 £m	2019/20 £m	3 Year Total £m	2020/21 £m	4 Year Total £m
Funding shortfall	9.6	6.6	6.9	23.1	6.7	29.8
% age Level of Savings Needed	4.5%	3.1%	3.2%	10.8%	3.2%	14.0%

Table 2c – Estimated Funding Gap (Pessimistic View)

	2017/18 £m	2018/19 £m	2019/20 £m	3 Year Total £m	2020/21 £m	4 Year Total £m
Funding shortfall	15.7	11.7	11.7	39.1	12.4	51.5
% age Level of Savings Needed	7.4%	5.5%	5.5%	18.4%	5.8%	24.2%

Table 2a above illustrates that the base projection funding gap is c. £31.1 million over the next 3 years, increasing to c. £40.7m 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 14.6% or 19.1% respectively on 2016/17 core budgets.

Looking at the optimistic view (Table 2b) on future cost pressures and government grant, the 3 year savings requirement is £23.1 million (10.8%) increasing to £29.8 million (14.0%) over 4 years. The pessimistic assessment (Table 2c) suggests a total savings requirement over the 3 year, period of £39.1 million (18.4%), increasing to £51.5 million (24.2%) over the 4 year period.

Based on the projections work and the sensitivity testing it appears that savings in the order of between 10.8% and 18.4% require to be identified over the next 3 years. This increases to 14.0% to 24.2% 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.

Movement in Projections

The baseline projected funding gap in this report has increased by £4.6m for the 3 year period 2017/18 to 2019/20 compared to that indicated in Report 121/16 submitted to Council in March. This is mainly due to assuming a higher level of reduction in government grant compared to the position in March and the introduction of new cost pressures such as the apprenticeship levy. These updated projections are also take a more pessimistic view of future government grant levels in the optimistic and pessimistic variants than was the case in March. It's important to point out however that report 121/16 covered only a 3 year period up to 2019/20 whereas this report covers 4 years to 2020/21.

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, and a detailed explanation of these risks is outlined in paras. 2.38 – 2.42 of 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 £51.5m 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.

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.

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 2017/18 – 2020/21 Update
Annex 1 (to Appendix A) – Updated Capital Project Priority Model