Angus Council

Medium Term Financial Strategy 2017/18 to 2020/21 Update (General Fund Services)

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Angus Council Medium Term Financial Strategy 2017/18 to 2020/21 Update

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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 2015 (report 347/15 refers) and the interim update approved in March 2016 (report 121/16 refers). The focus for this update is on the key areas of change for the period 2017/18 to 2020/21 and the projected funding shortfall over that period.

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 commenced on this as part of the preparation of the 2016/17 budget setting process and is continuing as part of the 2017/18 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 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.

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

- Revenue Budget Financial Projections (2017/18 to 2020/21)
- Capital Budget Financial Projections (2017/18 to 2020/21)
- Efficient Government Agenda
- An Outline Strategy of Cost Reduction Requirements to Balance Future Budgets

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

SECTION 2 - REVENUE BUDGET FINANCIAL PROJECTIONS- UPDATE (2017/18 TO 2020/21)

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 The Scottish Block grant allocation for 2017/18 has not yet been announced, and details of grant allocations at individual Council level are unlikely to be available until late December 2016. Estimates for Government Grant for 2017/18 – 2020/21 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 The ongoing Public Sector 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. <u>All assumptions and costs are based on the 4 year period 2017/18 to 2020/21.</u>

<u>Pay Inflation & Pressures</u>

2.10 Pay awards and other pay related cost pressures are assumed to cost around £14.5m 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 approximately £2.8 million over the four year period in respect of estimated increases to the Living Wage (this includes the estimated impact of the Living Wage on payments made to Tayside Contracts).

<u>School & Public Transport Costs</u>

2.12 It has been assumed that inflationary and tender price increases will add around £400,000 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.

<u>Demographic Change</u>

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 £1.6 million has been assumed over the 4 years towards costs associated with demographic changes.

<u>Third Party Inflation</u>

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 £4.0m 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 – 2018/19 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 of £2.3 million in this area has been allowed for over the next 2 years.

Energy Costs

2.16 The Council has been faced with significant rises in energy costs in the past due to market conditions. Reductions in energy consumption due to energy efficiency measures combined with falling oil prices have however resulted in significant underspends on energy in the last couple of years, and a reduction in the Council's energy budget provision was made for 2016/17. There is however thought to be a 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 £0.6m over the 4 years has therefore been assumed.

Transforming Angus Change Fund

2.17 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 2016/17 plus a sum of £2.134 million earmarked within General Fund balances, giving a total fund of £3.038 million for 2016/17 and beyond.

2.18 The projections assume that the base provision of £904,000 will 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

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

2.20 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 in late November 2016. The Scottish Government will announce the results of its 2016 Spending Review thereafter, with announcements relating to grant allocations unlikely to be made until late December.

2.21 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 2020/21, 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.**

2.22 The 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.

2.23 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 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. 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.

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 Council Tax base for Angus increased in 2016 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

2.27 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, etc. have also been made. The projections also assume that all one-off budget issues provided for in the 2016/17 budget will not be required in 2017/18 or beyond.

2.28 Except where indicated otherwise, the projections also assume that service provision levels and methods will remain as at present (2016/17 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

2.29 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 budget savings that will 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.

2.30 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.

2.31 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

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Total Angus Council Service Expenditure	232.2	231.6	231.6	231.8	232.0
Capital Financing Costs	14.3	14.2	14.6	15.1	15.1
Conversion of R & R to Prudential Borrowing	0.0	0.4	0.5	0.0	0.0
CFCR	0.0	0.0	0.0	0.0	0.0
Joint Boards	0.5	0.5	0.5	0.5	0.5
Use of Balances / Special Funds per existing drawdown strategies	0.9	0.5	0.0	0.5	0.5
Add Back Specific Grants	0.0	0.0	0.0	0.0	0.0
Net Expenditure Before Government Grant	**247.9**	**247.2**	**247.2**	**247.9**	**248.1**
Allowance for budget pressures (Category A)*	n/a	6.5	11.6	16.8	22.3
Allowance for budget pressures (Category B)*	n/a	1.0	1.9	2.9	3.9
Allowance for budget pressures (Category C)*	n/a	2.2	3.0	3.1	3.4
Revised Net Expenditure (before Govt. grant)	**247.9**	**256.9**	**263.7**	**270.7**	**277.7**
Less Government Grant	(200.7)	(197.7)	(194.7)	(191.7)	(188.8)
Less Council Tax (assuming no increase in charge)	(47.2)	(47.5)	(47.7)	(47.9)	(48.2)
Total Funding Shortfall (cumulative)*	Nil	11.7	21.3	31.1	40.7
Total Funding Shortfall (annual)	**Nil**	**11.7**	**9.6**	**9.8**	**9.6**

*- figures shown for these items are cumulative

2.32 The projections indicate that a total funding gap of £40.7m over the 4 year period of the Strategy, which is equivalent to 19.1% on the 2016/17 budgets, or 4.8% 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.

Sensitivity Testing

2.33 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 £40.7 million will exist over the 4 year period which would equate to circa 19.1% 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)

	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%***

2.34 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 £23.1m (10.8% overall), increasing to £29.8 million (14.0%) over the four year period, which would equate to average annual savings of circa 3.5%. The pessimistic assessment suggests total savings over the 3 year period £39.1m could be required (18.4% overall) which increases to £51.5 million (24.2%) over the four year period, which would mean an annual average savings requirement of circa 6.0%.

Risk and Issues

2.35 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.

2.36 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:-

Fundamental Risks

2.37 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.**

2.38 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.

2.39 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

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

The one-off growth funded in setting the 2016/17 revenue budget reoccurs in 2017/18 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.

2.41 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

2.42 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.

2.43 Under the pessimistic assessment the Council could be faced with a cumulative 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.

SECTION 3 - CAPITAL BUDGET FINANCIAL PROJECTIONS (2017/18 TO 2020/21)

Background

3.1 Report 64/16 approved by the Council in February 2016 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 2019/20 and included the Council's General Fund Financial Plan for 2015/16 to 2019/20. This section of the medium term financial strategy is largely drawn from Report 64/16 on a summarised basis.

3.2 The Council's General Fund Financial Plan for the period 2015/16 to 2019/20 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.

2016/17 Local Government Finance Settlement - Capital Funding

3.3 The main implications for capital funding from the latest Finance Settlement were set out in the Background Report to the Special Budget Meeting of Angus Council on 18 February 2016 (report 60/16 refers).

3.4 In summary however, Angus Council has been awarded total capital funding of £10.263m for 2016/17, including £0.128m specific grant in respect of Cycling, Walking & Safer Streets.

Summary of Capital Spending Plans to 2020/21

3.5 The 2015/2020 Financial Plan agreed by members in February 2016 (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 2019/20. The long term affordability analysis then made assumptions about spending levels thereafter to give the levels of expected spend in the period to 2020/21 set out in Table 3 below.

Table 3 – Summary of Net Capital Expenditure 2016/17 to 2020/21

	Year 1	Year 2	Year 3	Year 4	Year 5
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Projected Net Capital Expenditure	25.680	22.088	17.696	7.646	14.000

Priority Projects

3.6 The continuing priority of the existing projects in the capital programme was agreed by the Policy & Budget Strategy Group (PBSG) as part of the 2016/17 budget setting process. The PBSG also considered a number of bids for new priority projects and agreed that the following should be added to the 2015/2020 Financial Plan:

- £3.150m for extension of Brechin Business Park;
- £0.500m for Mill of Dun to Stracathro route action plan;
- £0.043m for Arbroath Academy synthetic pitch;
- £0.500m for mental health accommodation;
- £2.350m for replacement of The Gables residential unit; and
- £0.860m for the Agile Angus programme.

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 2020/21 financial year, capital project priorities will be considered as part of the 2017/18 budget setting process and this will 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 64/16, but the following summary points are highlighted.

Loan Charges Budget

3.11 It has been assumed that additional annual general revenue resources of £0.250 million will continue to be applied to the loan charges budget to mitigate the effect of reducing loan charges grant levels.

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. Any balance of headroom will be carried forward to be used in the following year to offset new borrowing requirements in order reduce the call on future capital financing costs budgets.

Key Risks and Issues

3.28 The main risks to the capital budget projections relate to government funding for capital generally although the potential impact on public spending levels has been allowed for as far as possible within the capital budget projections.

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 £11.970m gross spend and assumes that government grant of £8.440m 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 the 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 - COST REDUCTION REQUIREMENTS TO BALANCE FUTURE BUDGETS

Background

4.1 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.

4.2 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 £87 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 8 years.

- 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.

4.3 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

4.4 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.

4.5 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
- Transforming Angus Programme

Savings from Corporate (council-wide) Budgets

4.6 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

4.7 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.

4.8 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.

4.9 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.

4.10 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.

Management of Budget Risks

4.11 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.

4.12 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.

4.13 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

4.14 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 £29.9m and £51.5m could exist with the base projection assuming that £40.7m of savings will be required.

4.15 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.

Transforming Angus

4.16 The Council has agreed that the future savings strategy will be based around key strategic priorities and the Transforming Angus (TA) programme, rather than the historic “salami slicing” approach to budget savings. The TA programme reflects the Council’s commitment to change how we do things and to addressing our financial challenges on a strategic rather than piecemeal basis.

SECTION 5 – CONCLUSIONS

5.1 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.

5.2 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, budget savings and policy prioritisation which the Council needs to take.

5.3 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.