

**ANGUS COUNCIL**

**MEETING OF ANGUS COUNCIL – 6 SEPTEMBER 2018**

**MEDIUM TERM BUDGET STRATEGY 2019/20 TO 2021/22**

**REPORT BY HEAD OF FINANCE & LEGAL**

**ABSTRACT**

This report sets out an updated medium term budget strategy (MTBS) for Angus Council's General Fund Services incorporating the projected funding shortfall over the period 2019/20 to 2021/22. 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 and deliver sustainable savings over the medium to long term to meet the significant financial challenges which the Council faces in the next few years;
- (b) note the severity of the challenge the Council faces to remain financially sustainable and the significant and unavoidable impact this will have on services to the public;
- (c) approve the updated medium term budget strategy for the period 2019/20 to 2021/22 attached as Appendix A to this report;
- (d) note the central role of the Council's Change Programme in addressing the projected funding gap outlined in this report
- (e) note that it is essential the Council plan its budget strategy over a rolling 3 year period and make decisions to ensure savings are planned and made across that rolling 3 year period;
- (f) note the intention to update the strategy annually to ensure the Council has a rolling 3 year strategy for the revenue budget and a rolling 4 year strategy for the capital budget.

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

This report contributes as a whole to the Council Plan/Local Outcome Improvement Plan.

**3. BACKGROUND – MEDIUM TERM BUDGET STRATEGY**

This report updates the position set out in September 2017 (report 274/17 refers) which covered the 3 year period 2018/19 to 2020/21. The Council is asked to approve this updated strategy covering the period 2019/20 to 2021/22 which is attached at Appendix A.

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.

#### 4. MAIN FEATURES OF THE PROPOSED STRATEGY

The medium term budget strategy update is broken down into 5 main sections as follows:-

- Background & Need for A Medium Term Budget Strategy
- Revenue Budget Financial Projections (2019/20 to 2021/22)
- Options and Plans for Bridging the Projected Funding Gap
- Capital Budget Financial Projections (2019/20 to 2021/22)
- Conclusions

#### 5. REVENUE BUDGET FINANCIAL PROJECTIONS 2019/20 TO 2021/22

The medium term budget 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 will be reported separately.

##### 5.1 Estimated Funding Gap Projections Summary

The purpose of the projections in the report 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.

Tables 1a, 1b & 1c below detail the estimated funding gap based on 3 scenarios - a base projection, an optimistic scenario projection and a pessimistic scenario projection. These scenarios reflect the real challenge of estimating future budget positions in the absence of information on Scottish Government grant allocations and key cost variables such as pay awards.

**Table 1a – Estimated Funding Gap (Base Projection)**

	2019/20 £m	2020/21 £m	2021/22 £m	3 Year Total £m
<b>Funding shortfall</b>	<b>15.4</b>	<b>11.9</b>	<b>9.2</b>	<b>36.5</b>
<b>% age Level of Savings Needed</b>	<b>7.1%</b>	<b>5.5%</b>	<b>4.3%</b>	<b>16.9%</b>

**Table 1b – Estimated Funding Gap (Optimistic View)**

	2019/20 £m	2020/21 £m	2021/22 £m	3 Year Total £m
<b>Funding shortfall</b>	<b>12.7</b>	<b>7.4</b>	<b>7.4</b>	<b>27.5</b>
<b>% age Level of Savings Needed</b>	<b>5.9%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>12.7%</b>

**Table 1c – Estimated Funding Gap (Pessimistic View)**

	2019/20 £m	2020/21 £m	2021/22 £m	3 Year Total £m
<b>Funding shortfall</b>	<b>18.8</b>	<b>15.3</b>	<b>11.8</b>	<b>45.9</b>
<b>% age Level of Savings Needed</b>	<b>8.7%</b>	<b>7.1%</b>	<b>5.4%</b>	<b>21.2%</b>

The percentage savings figures shown in Tables 1a to 1c above are calculated using the Council's total net budget excluding debt and PPP costs. In practice many areas of the Council's budget are not easily changed or cannot be significantly influenced due to national policies. This means the burden of savings falls on a much smaller part of the budget and in those areas the level of reduction in budget will need to be much higher than the percentages shown above.

## 5.2 Movement in Projections

The baseline projected funding gap in this report has increased by £3.9million for financial year 2019/20 compared to that indicated one year ago in Report 274/17. There are 3 main reasons for this:-

- Pay: an increase in anticipated pay settlements in light of the lifting of the public sector pay cap since the projections one year ago;
- One-off budget solutions: one-off funding and savings were used to balance the 2018/19 budget, i.e. in 2018/19 we are using one-off sources of funding to pay for service costs which are recurring. Finding a permanent funding solution to pay for these recurring costs will therefore require to be addressed in the 2019/20 budget setting;
- Government Grant: a slightly improved position from that previously projected in light of the Scottish Government's recently published financial strategy. A cash grant reduction of 2% is still projected for 2019/20 however.

## 5.3 Funding Gap Causes

The Council's budget is under such severe strain through the combined effect of the following:-

- a. Real terms reductions in government grant;
- b. Rising costs due to inflation;
- c. Rising costs due to increased demand for some services.

The above brings about a "triple whammy" effect on the Council's budget with managing demand becoming a significant challenge year on year as the Government grant reduces and inflation rises.

Government grant pays for 80% of the cost of providing Council services so £4 out of every £5 the Council spends comes from Scottish Government. Council Tax pays for only 20% of the cost of Council services. Real terms reductions in grant combined with the cap on Council Tax increases means the income (funds) available to the Council to pay for services is expected to fall in the period ahead.

Many of the Council's costs are affected in the same way as household spending. Rising costs for food, fuel and energy affect the Council considerably because of the types of services provided. Staff pay is the Council's biggest cost and each 1% rise in pay costs approximately £1.5m.

Services such as care for the adults and older people have seen rising demand in recent years because of a growing population of older people. Other services, like looked after children and additional support needs services have also seen more demand for support from Council staff and partners. This additional demand often impacts on the Council's budget and its ability to offer the wide range of services it used to.

The combined effect of reducing income and rising costs creates the projected funding gaps described in this report. What this means in practice is that the Council has to find savings in existing budgets in order to be able to afford the cost rises caused by inflation and service demand. Efficiency, staff reductions, service reductions and increased charges are all necessary to help pay for the rising costs elsewhere in the budget.

## 5.4 Bridging the Funding Gap

It is vital that the Council take a strategic and measured approach to bridging the projected funding gap identified and the intention is to do that almost entirely through the Change Programme (Report 254/18 refers). The percentage reductions to budgets approach used by the Council in the past will accordingly only be considered as a last resort measure should the savings identified through the Change Programme be insufficient to achieve a balanced budget.

5.5 At this stage savings options in the Council's Change Programme of up to £21.796 million have been identified for bridging the funding gap for the period 2019/20 to 2021/22 and this falls somewhat short of the projected funding gap. The savings plans for 2021/22 have yet to be fully developed at this stage. This highlights the serious financial challenges which Angus Council faces over the next 3 years and the further work that is required to identify additional savings and funding options. It is clear from the Strategy attached at Appendix A despite all of the service changes, savings and staff reductions to date far reaching changes to services are still required for the Council to live within the resources available.

#### Severity of the Challenge and Implications for Services

5.6 The further savings projected to be required over the next 3 years are in addition to the £43.4m (17%) million saved in the last 5 years alone and the reduction in the Council's workforce of around 500 staff (12%) in the same period. The scale of the savings required is unprecedented and the cumulative effect of such savings over such a protracted period calls into question the sustainability of existing levels and methods of service, the funding models used to pay for local government services as well as the multitude of statutory duties placed on Councils.

5.7 The MTBS should leave Councillors and members of the public in no doubt about the severity of the challenges the Council faces to remain financially sustainable. Angus Council has never faced a more serious challenge to its financial viability than that which lies ahead in the next few years. Significant improvements to the funding settlements received by Local Government compared to recent years would be necessary to lessen the severity of the challenge and that scenario seems unlikely.

5.8 The Change Programme is the place where the Council holds its projects of innovation, efficiency and transformation. The Programme offers proposals which include stopping, reducing or co-producing services. The Programme is intended to identify the impacts on service provision and mitigate risks in advance of any agreed changes. It is important to note savings on the scale estimated to be required cannot be achieved without real and far reaching changes and reductions to services.

#### How Will The Strategy Be Used

5.9 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 and service changes.

#### 5.10 Strategy Development & Updating

The strategy will be updated on an annual basis so that the Council has a rolling 3 year financial strategy (revenue) and 4 year rolling strategy (capital) 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 Budget Strategy 2019/20 – 2021/22 Update  
Annex 1 (to Appendix A) – Updated Capital Project Priority Model