

**SPECIAL ANGUS COUNCIL**

**4 MARCH 2021**

**MEDIUM TERM BUDGET STRATEGY 2022/23 TO 2023/24 & DEVELOPMENT OF LONGER TERM FINANCIAL STRATEGY**

**REPORT BY DIRECTOR OF FINANCE**

**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 2022/23 to 2023/24. Such a strategy is critical to the council's medium term financial planning arrangements and in view of the ongoing constraints on public spending. This report also provides an update on the plans for the preparation of a Longer Term Financial Strategy for the Council.

**1. RECOMMENDATION(S)**

1.1 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 2022/23 to 2023/24 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 and the need for significant new projects and options to be developed;
- (e) note the continuing development of the Change Programme to identify savings from new projects and options to close the projected funding gaps and that this will be reported separately to members in the next few months;
- (f) 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;
- (g) note the intention to update the strategy annually to ensure the Council has a rolling and detailed 3 year strategy for the revenue budget and a rolling 4 year strategy for the capital budget;
- (h) note the update on the plans for the preparation of a Longer Term Financial Strategy for the Council.

**2. ALIGNMENT TO THE ANGUS COUNCIL PLAN/COMMUNITY PLAN**

2.1 This report contributes as a whole to the Council Plan/Community Plan.

**3. BACKGROUND – MEDIUM TERM BUDGET STRATEGY & LONGER TERM FINANCIAL STRATEGY**

3.1 Due to increased workload from COVID-19, and in particular the work required to revise the 2020/21 budgets, it was not possible for Finance officers to prepare an update to the MTBS in September 2020 as planned. It was agreed that the MTBS would alternatively be presented to the Special Angus Council budget setting meeting in March 2021.

- 3.2 The MTBS would normally cover 3 years, however given the amended time schedule, year 1 is the 2021/22 Budget being presented for approval to this meeting. The MTBS covers years 2 & 3, (2022/23 & 2023/24) and projections and assumptions of costs/income have been prepared for both financial years.
- 3.3 This report updates the position that was set out in September 2019 (report 288/19 refers) which covered the 3 year period 2020/21 to 2022/23. The Council is asked to approve this updated strategy covering the 2 year period 2022/23 to 2023/24 which is attached at Appendix A.
- 3.4 In addition to the medium term outlook in the MTBS, good practice necessitates that the Council also consider service and budget impacts beyond this timeframe in a Longer Term Financial Strategy. External Audit also made recommendations in their 2019/20 Annual Audit Report to Members of the need for the Council to prepare such a Strategy. The intention of a longer term strategy is to consider future impacts facing council services and to highlight risks where cost or demand growth may impact onto the future budgets. This may be cross-cutting issues such as pay increases and any service specific issues that need to be addressed, such as Scottish Government initiatives around waste strategy.
- 3.5 The intention was to present an initial long term financial strategy as part of this report, however the additional work caused by the pandemic means that this has had to be deferred. The intention now is to present this report to a Policy & Resources Committee for members consideration in early course.
- 3.6 Although it is difficult to predict, the funding gaps and financial challenges facing the Council seem likely to continue in the years ahead. It seems likely for example that UK and Scottish Government budgets will be under pressure due to the impact COVID-19 has had on public borrowing, and in the short term at least reduced economic growth and reduced tax receipts.
- 3.7 In considering the MTBS 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 Council or relevant committees.

#### **4. MAIN FEATURES OF THE PROPOSED MEDIUM TERM BUDGET STRATEGY**

- 4.1 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 (2022/23 to 2023/24)
  - Options and Plans for Bridging the Projected Funding Gap
  - Capital Budget Financial Projections (2021/22 to 2024/25)
  - Conclusions

#### **5. REVENUE BUDGET FINANCIAL PROJECTIONS 2022/22 TO 2023/24**

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 is 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 inflation.

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

	2022/23 £m	2023/24 £m	2 Year Total £m
<b>Funding shortfall</b>	<b>9.7</b>	<b>9.5</b>	<b>19.2</b>
<b>% age Level of Savings Needed</b>	<b>3.9%</b>	<b>3.8%</b>	<b>7.7%</b>

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

	2022/23 £m	2023/24 £m	2 Year Total £m
<b>Funding shortfall</b>	<b>6.9</b>	<b>7.0</b>	<b>13.9</b>
<b>% age Level of Savings Needed</b>	<b>2.8%</b>	<b>2.8%</b>	<b>5.6%</b>

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

	2022/23 £m	2023/24 £m	2 Year Total £m
<b>Funding shortfall</b>	<b>11.7</b>	<b>11.9</b>	<b>23.6</b>
<b>% age Level of Savings Needed</b>	<b>4.7%</b>	<b>4.8%</b>	<b>9.5%</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 for 2022/23 has increased slightly from £9.5 million to £9.7 million, an increase of £0.2 million compared to that indicated in September 2019 in Report 288/19.

#### 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 over a number of years for core and existing services (i.e. after deducting any new funding for new duties and responsibilities placed upon Councils) – the projections assume such reductions in funding will continue;
- b. Rising costs due to inflation;
- c. Rising costs due to increased demand for some services;
- d. The increased reliance on reserves to balance the budget.

5.4 The above brings about a “quadruple whammy” effect on the Council's budget with managing demand becoming a significant challenge year on year as Government grant for core and existing services reduces. Although we have seen a rise in grant for 2021/22 the proportion of this which supports pay inflation and other budget pressures is insufficient to avoid further budget savings having to be made.

5.5 Over and above this may be any ongoing impact of addressing the Covid-19 pandemic. The separate report on this Agenda (“Covid-19 Budget Implications and Potential use of Scottish Government Fiscal Flexibilities) highlights that the 2021/22 budget has been prepared without provision for any Covid-19 related cost pressures in recognition that it is anticipated that these can be addressed from specific funding provisions and uncertainty regarding all of the financial implications. In light of this, however, the funding gaps outlined in this report could increase if additional ongoing costs are evident as a result of Covid-19 that are not matched will additional funding.

5.6 Government grant pays for 80% of the net 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 net cost of Council services. The projected reductions in grant combined with an assumed continuation of a cap on Council Tax increases means that in the income (funds) available to the Council to pay for services is expected to fall in real terms in the period ahead.

- 5.7 Many of the Council's costs are affected in the same way as household spending. Rising costs for food, fuel, energy, etc. affect the Council considerably because of the types of services provided. Staff pay is the Council's biggest cost - each 1% rise in pay costs approximately £1.7m.
- 5.8 Services such as care for 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.
- 5.9 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.
- 5.10 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. 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.
- 5.11 At this stage savings options in the Council's Change Programme of up to £18.739 million have been identified for bridging the funding gap for the period 2022/23 to 2023/24. Although this savings figure comes very close to funding the full gap projected members should be aware that a number of the larger valued projects are in the development stages and caution needs to be taken with this figure. Members will be continually updated on the ongoing position of these projects as they continue to develop. It is clear from the Strategy attached at Appendix A that 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 and the development of the new projects within the Change Programme should assist with these continued challenges.

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

- 5.12 The further savings projected to be required over the next 2 years are in addition to the £66.1m (24%) million saved in the last 8 years. 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.
- 5.13 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 may be unlikely depending on policy choices by Governments.
- 5.14 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 the number and level of services provided by the Council.
- 5.15 How Will the Strategy Be Used  
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.

5.16 Strategy Development & Updating

The MTBS 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. A longer term financial strategy covering circa 10 years is also to be developed.

**6. FINANCIAL IMPLICATIONS**

6.1 There are no additional 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 Council and 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 2022/23 – 2023/24 Update

Annex 1 (to Appendix A) – Updated Capital Project Priority Model