

ANGUS COUNCIL - 4 NOVEMBER 2021

MEDIUM TERM BUDGET STRATEGY 2022/23 TO 2024/25

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 2024/25. 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)

1.1 It is recommended that the Council:

- (a) notes 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) notes 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) approves the updated Medium Term Budget Strategy for the period 2022/23 to 2024/25 attached as Appendix A to this report;
- (d) notes the central role of the Council's Change Programme in addressing the projected funding gap and the work that is being undertaken to refresh and transition the programme as outlined in section 5.14 of this report and Appendix A. This will be reported separately to members as part of the budget setting process for 2022/23;
- (e) notes 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) notes 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.

2. ALIGNMENT TO THE COUNCIL PLAN

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

3. BACKGROUND – MEDIUM TERM BUDGET STRATEGY (MTBS)

3.1 This report updates the position that was set out in March 2021 (report 74/21 refers) which covered the 2 years' period 2022/23 to 2023/24. The Council is asked to approve this updated strategy covering the 3 years' period 2022/23 to 2024/25 which is attached at Appendix A.

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 tax receipts.

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 2024/25)
- Options and Plans for Bridging the Projected Funding Gap
- Capital Budget Financial Projections (2022/23 to 2025/26)
- Conclusions

5. REVENUE BUDGET FINANCIAL PROJECTIONS 2022/23 TO 2024/25

5.1 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.

5.2 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	2024/25 £m	3 Year Total £m
Funding shortfall	12.203	11.367	13.502	37.072
% age Level of Savings Needed	4.9%	4.6%	5.4%	14.9%

Table 1b – Estimated Funding Gap (Optimistic View)

	2022/23 £m	2023/24 £m	2024/25 £m	3 Year Total £m
Funding shortfall	9.101	8.501	9.560	27.162
% age Level of Savings Needed	3.7%	3.4%	3.8%	10.9%

Table 1c – Estimated Funding Gap (Pessimistic View)

	2022/23 £m	2023/24 £m	2024/25 £m	3 Year Total £m
Funding shortfall	14.790	14.218	15.306	44.314
% age Level of Savings Needed	6.0%	5.7%	6.2%	17.9%

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.

5.3 Movement in Projections

The baseline projected funding gap for 2022/23 has increased by £2.5 million from £9.7 million to £12.203 million compared to that indicated in March 2021 in Report 74/21 reflecting additional pressures and issues now expected to affect the 2022/23 budget.

5.4 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 and the availability of supplies and materials;
 - c. Rising costs due to increased demand for some services;
 - d. The increased reliance on reserves to balance the budget.
- 5.5 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 that supported pay inflation and other budget pressures was insufficient to avoid further budget savings having to be made.
- 5.6 In addition to this the Council needs to plan for the medium to the long term in relation to COVID-19 response, recovery and renewal. There is no certainty regarding any further funding support from the Scottish Government should further financial impacts from COVID-19 emerge. Report 285/21 to Angus Council on the 9 September set out an updated budget strategy for the Council in relation to the use of uncommitted funds and initial proposals for the use of some of those funds for COVID-19 response, recovery and renewal. With so much uncertainty regarding future impacts from the pandemic, future government grant allocations for the Council's main budget and general risks affecting the Council's finances it is essential that our forward financial strategy is flexible and able to be adapted to changing circumstances but also recognises the significant financial challenges which continue to face the Council 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 with additional funding.
- 5.7 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 the income (funds) available to the Council to pay for services is expected to fall in real terms in the period ahead.
- 5.8 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. There have been sizeable inflationary pressures to supplies the Council needs to buy to provide services. There is also risk in areas such as pay where negotiations with trade unions are ongoing, staff pay is the Council's biggest cost - each 1% rise in pay costs circa £1.7m.
- 5.9 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.
- 5.10 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.
- 5.11 Bridging the Funding Gap
It is vital that the Council takes 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. It should be noted that as part of the 2022/23 revenue budget process Services were asked to provide target led savings and these have been included in the Change Programme under Service Contractions.
- 5.12 At this stage savings options in the Council's Change Programme of up to £22.9 million have been identified for bridging the funding gap for the period 2022/23 to 2024/25. 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

- 5.13 The further savings projected to be required over the next 3 years are in addition to the £71.3m (26%) million saved in the last 9 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.
- 5.14 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.
- 5.15 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.

5.16 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.

5.17 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 being 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.

7. EQUALITY IMPACT ASSESSMENT

- 7.1 An equality Impact Assessment is not required as the report has no impact on people and it is reflective, setting out budget funding gap projections over 3 financial years.

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 – 2024/25 Update
Annex 1 (to Appendix A) – Updated Capital Project Priority Model