

**ANGUS COUNCIL – 3 MARCH 2022**

**2022/23 REVENUE BUDGET – SUMMARY FINANCIAL CONTEXT AND FINANCIAL  
SUSTAINABILITY CHALLENGES**

**REPORT BY IAN LORIMER, DIRECTOR OF FINANCE**

**ABSTRACT**

This report summarises the overall financial context in which the Council sets its 2022/23 Revenue Budget and why this presents significant challenges for the Council's future financial sustainability and service provision.

**1. RECOMMENDATIONS**

1.1 It is recommended that the Council:

- a) note the contents of this report and in particular the scale of the financial challenges facing the Council in setting the 2022/23 budget and how these arise as set out in the report; and
- b) note the concerns officers have regarding the sustainability of the current model and approach to local government funding and the implications this could have for future service provision and Council Tax levels.

**2. ALIGNMENT TO THE COUNCIL PLAN**

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

**3. BACKGROUND**

3.1 A large amount of information is being presented to Council in the various reports for the Special Budget setting meeting on 3 March 2022. This report seeks to summarise some key points from that information to help explain the financial context in which the 2022/23 General Fund Revenue Budget and Council Tax is being set. A variety of circumstances (mostly beyond the Council's control) have created a financial context for setting the budget which is the most difficult in the 26 year life of Angus Council. The outlook for the years beyond 2022/23 looks even more difficult financially. This context raises concerns and presents significant challenges for the Council's financial sustainability and the services the Council will have the resources to provide in future.

**4. GENERAL FUND REVENUE EXPENDITURE & INCOME**

4.1 The challenges facing the Council in setting the 2022/23 budget arise in part because large parts of the Council's costs are either fixed or are subject to ring-fencing or spending directions from the Scottish Government. This means that it is either not possible or very difficult to make savings in many areas of expenditure. Some 87% of the Council's net expenditure is in a small number of large service areas as shown in Table 1 below.

**Table 1 – Top 6 Areas of Spend**

Service Area	% of Budget	Comments
Schools – Primary, Secondary, ASN, Early Years	42	Teaching staff and support staff along with non-domestic rates and energy costs in school buildings and schools PPP contract payments are the largest costs. The Council is required to meet certain targets on teacher numbers so there is limited flexibility on the largest single area of spend in the Council's budget
Adult Social Care Services	22	Costs are rising due to an ageing population and impacts from the COVID-19 pandemic.
Children, Families & Justice Services	7	Provides services to the most vulnerable in Angus including children at risk of harm
Roads & Transport Services	6	Includes significant contractual commitments such as the A92 PFI contract as well as lifeline services such as winter maintenance and subsidised bus services
Waste Management	6	The Council has limited control over costs – household waste levels and recycling practices by Angus citizens impact significantly on costs the Council has to incur.
Borrowing Costs	4	Largely fixed due to capital spending decisions in previous years
<b>Total of Top 6 Spend Areas</b>	<b>87</b>	

- 4.2 Some 81% of the Council's net budget comes from Scottish Government grant. Council Tax pays for only 19% of the net cost of providing Council services. Report 62/22 – Provisional Revenue & Capital Budgets – Background Report provides more detail but Table 2 below summarises the position with the Council's grant allocation from Government for 2022/23.

**Table 2 – Scottish Government Revenue Grant Support**

	2022/23 £m	2021/22 £m	Increase/ (Reduction) £m	Increase/ (Reduction) %
<b>Total Baseline Funding</b>	<b>247.0</b>	<b>226.6</b>	<b>20.4</b>	<b>9.0</b>
Additional Funding (One-off) £120m	2.5	0	2.5	
<b>Total Grant Funding</b>	<b>249.5</b>	<b>226.6</b>	<b>22.9</b>	<b>10.1</b>
Less Ring-fenced Funding & Grant for New Burdens plus Other Adjustments	(21.8)	n/a	(21.8)	
<b>Adjusted Core Revenue Grant</b>	<b>227.7</b>	<b>226.6</b>	<b>1.1</b>	<b>0.5</b>

- 4.3 Table 2 shows that a significant increase in grant funding (£22.9 million, 10.1%) has been allocated to the Council for 2022/23 compared to the previous year. However only £1.1 million of that increase is freely available to support rising costs in the Council's budget.

## 5. COST INCREASES AND ISSUES AFFECTING THE 2022/23 REVENUE BUDGET

- 5.1 The Council's budget is affected by increasing costs due to inflation and in some services increased demand where there is more need. The Council is not immune from the effects of inflation in the wider economy so the Council's costs for energy, fuel, food and other materials required for service provision are rising significantly just as they are for households. High levels of general inflation also bring pressure from staff and trade unions for higher pay rises to compensate for rising prices.
- 5.2 Managing cost and demand pressures on the Council's budget is not a new problem but the scale of the problem for 2022/23 is a major concern bearing in mind that the Scottish Government grant which pays for 81% of the Council's costs includes an increase of only £1.1 million which can help pay for rising costs.

5.3 The Table 3 below shows the 7 largest areas of cost increase affecting the 2022/23 budget. There are other cost increases over and above these but the ones listed in the table are the largest by value. All of these are either outwith the Council's control or are areas where the Council has limited influence e.g. due to national arrangements. The table also shows (for indicative purposes only) what level of Council Tax increase would be required if all of these cost increases were to be passed on to Council Taxpayers.

**Table 3 – Largest Value Cost Increases on 2022/23 Revenue Budget**

Cause of Cost Increases	Value £m	Council Tax Increase Required*		Comments
		£	%	
Increased national insurance payable by the Council as an employer (social care levy)	1.4	£29	2.4%	This new levy adds 1.25% to the Council's pay costs. It is an unavoidable additional cost which will have to be paid.
Increases in 2021/22 pay costs arising from nationally negotiated pay deal	0.6	£13	1.1%	This is the additional cost beyond what the Council had included in its 2021/22 budget because pay deals settled at a higher level. The 2021/22 pay deal for teaching staff has yet to be settled so could add to the additional cost shown.
Increases in 2022/23 pay costs arising from nationally negotiated pay deals	2.8	£59	4.9%	This is an estimate based on a pay rise of 1.5%. Staff and unions will be seeking a rise more in line with inflation but this is not affordable for the Council.
Increases in pay costs arising from incremental progression along pay scales	0.8	£17	1.4%	For most jobs including teachers staff progress along a salary scale as they gain experience prior to reaching the maximum point on the pay grade.
Increase in energy costs due to market conditions (rising energy prices)	1.0	£21	1.7%	The Council buys its energy from a national contract managed by the Scottish Government which because of advanced purchasing gives some protection in the short term from the even larger rises affecting household energy bills. This increase is still equivalent to a circa 20% rise in costs.
Increase in schools PPP costs due to inflation	0.7	£15	1.2%	The Council's PPP payments to the contractors who built and now maintain some of our schools increase by inflation each year. With inflation running so high this cost increase is much larger than normal.
Other cost increases due to inflation	0.5	£11	0.9%	This includes inflation on school transport costs, school cleaning costs, winter maintenance costs and local bus service provision
<b>Total</b>	<b>7.8</b>	<b>£163</b>	<b>13.6%</b>	

\* - this is the increase which would be required in the Band D Council Tax if the whole amount of the cost increase was passed directly onto Council Taxpayers.

5.4 Table 3 shows the significance of the challenge facing the Council to balance its 2022/23 budget but those cost increases listed are only part of the picture. The Council balanced its budget in 2021/22 using reserves of £3.7 million on a one-off basis and that shortfall therefore has to be addressed for 2022/23. Some £2.1 million of cost pressures affecting the Angus Health & Social Care Partnership also have to be addressed. **In total the Council must close a funding gap of £13.9 million to balance the 2022/23 revenue budget.**

## 6. OPTIONS FOR CLOSING THE BUDGET FUNDING GAP

6.1 As noted in paragraph 4.3 above the Council has been allocated a large increase in grant from the Scottish Government for 2022/23 but 95% of that increase is to pay for new policies and initiatives which have new cost burdens, in other words almost all of the grant increase already has spending commitments against it. In effect the 2022/23 grant allocation to the Council from the Scottish Government expects the Council to self-fund almost all of the cost increases listed in Table 3 above.

6.2 The Council having to self-fund the cost increases in Table 3 and the total funding gap of £13.9 million requires the following options to be considered:-

Options to Pay For Cost Increases	Comments
Apply efficiency savings in the Council's budget	<p>Finding efficiency savings which reduce costs without impacting on service provision is always the first option for addressing cost increases and the Council has made significant efficiency savings already.</p> <p>The Change Programme sets out the targets for efficiency savings. The ability to deliver new efficiency savings year after year is not unlimited.</p>
Increase fees and charges for Council services	<p>Excluding charges for Adult Social Care the income from which is received by the Angus IJB and car parking charges which are proposed to remain suspended each 1% rise in fees and charges provides only around £34,000 in additional income.</p> <p>Increases in fees and charges are not therefore a large part of the solution to cost increases in the Council's budget for 2022/23.</p>
Increase Council Tax	<p>For the current financial year (2021/22) Angus Council has the 2<sup>nd</sup> lowest Council Tax in mainland Scotland. Each 1% increase in Council Tax provides additional income to support service provision of around £574,000.</p> <p>If Council Tax in Angus was set at the 2021/22 national average this would require an 8.4% increase, add £101 to the Band D tax level and generate additional income of £4.75m.</p>
Apply cuts to services	<p>Although not a favoured option the scale of increases in costs and the savings and efficiencies already removed from the Council's budget in previous years mean this option is becoming more prevalent as a means to offset cost increases.</p>
Use Council reserves as a one-off measure	<p>Reserves are a one-off (temporary rather than permanent) source of funding. The huge pressures on the Council's budget in recent years and the availability of reserves has meant this has been a necessary option.</p> <p>Reserves can only be used once so they are not a sustainable way to address funding gaps in the budget.</p>

6.3 The remaining reports on the agenda for the Special Council meeting on 3 March 2022 explain how the Council intends to close most of the funding gap including by targeting £6.8 million of savings through the Change Programme but the remaining gap will require decisions at the meeting itself on Council Tax and the use of Council reserves.

## 7. CUMULATIVE IMPACT AND SUSTAINABILITY

7.1 It is important for the Council not to look at the 2022/23 budget and indeed the outlook for future year's budgets in isolation. What has gone before in past budgets is directly relevant to what is possible now and into the future.

7.2 Assuming members approve the package of savings set out in reports 62/22 and 64/22 the cumulative savings Angus Council will have made in the revenue budget over the last decade will amount to £78.1 million as shown in Table 4 below.

**Table 4 – Budget Savings 2013/14 to 2022/23**

<b>Financial Year</b>	<b>Budgeted Savings £millions</b>
2013/14	6.3
2014/15	6.2
2015/16	5.7
2016/17	10.1
2017/18	6.6
2018/19	10.6
2019/20	10.4
2020/21	10.2
2021/22	5.2
2022/23	6.8*
<b>10 Year Total</b>	<b>78.1</b>

\* - assumes approval of Change Programme savings at budget setting meeting

7.3 Savings of £78.1 million represents a 25% reduction on the 2022/23 total net expenditure and 32% reduction on the 2013/14 total net expenditure. These are very large sums of money which have already been taken out of the Council's budget and therefore addressing future funding gaps will need new options for savings and cuts to be identified if additional funding through government grant and Council Tax rises are insufficient to close those gaps.

7.4 Report 62/22 provides information on the Council's projected funding position for financial years 2023/24 and 2024/25 but Table 5 summarises the position.

**Table 5 – Projected Funding Gaps – Future Years**

	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2 Year Total £m</b>
<b>Total Projected Gap</b>	<b>19.4</b>	<b>15.5</b>	<b>34.9</b>
Less Change Programme savings	(6.0)	(7.3)	(13.3)
Less 3 year General Fund Reserves Drawdown Strategy	(2.0)	(1.0)	(3.0)
<b>Estimated funding gap still to be addressed</b>	<b>11.4</b>	<b>7.2</b>	<b>18.6</b>

7.5 The 2 year funding gap remaining of £18.6 million assumes no Council Tax increase is applied in setting the 2022/23 budget nor any increase in the 2 following years. Council Tax increases will be an option to close the gap but other measures (further savings and service cuts) will almost certainly be required because closing all of the £18.6 million gap from Council Tax increases alone would require a rise of £391 (32%) on current Council Tax levels. Such increases are unlikely to be palatable to elected members or Council taxpayers.

7.6 The figures in Table 5 are based on projections and things could change both positively and negatively before the budgets for those years need to be set. However if the Council's costs continue to increase due to inflation and rising demand and there continues to be limited or no additional funding for such increases in costs through government grant support then savings, cuts and Council Tax increases will be required on a very large scale in future years.

7.7 Given the scale of savings already made by the Council (£78m in the last 10 years) there has to be genuine doubt and significant concern about how realistic it is to assume that further reductions in costs totalling £34.9m by 2025 can be made without drastic and damaging reductions in service provision. Council Tax increases can potentially provide part of the answer but even rises of say 5% p.a. would still leave a very large funding gap (circa £9.6 million) to be dealt with.

- 7.8 The current model and approach to local government services and funding is now reaching a point where it is becoming unsustainable and the risk of service failure becomes greater with each year's budget as services and staffing levels get squeezed further and further. It is simply not practical to expect the Council to continue to absorb huge increases in costs year after year given the scale of savings and efficiencies already made. Unless there is more funding provided through the grant system for existing core services or Councils are given new income generation options the future looks to be one where large cuts in services and large rises in Council Tax will be required to ensure the Council can remain financially sustainable. Efficiency savings and service redesign will of course continue to play a role in helping address financial sustainability concerns but these measures will be an increasingly small part of the solution.

## **8. FINANCIAL IMPLICATIONS**

- 8.1 There are no additional financial implications for the Council beyond those set out in the body of this report.

## **9. EQUALITY IMPACT ASSESSMENT**

- 9.1 An equality impact assessment is not required.

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