

ANGUS COUNCIL – 3 NOVEMBER 2022

MEDIUM TERM BUDGET STRATEGY 2023/24 TO 2025/26

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 2023/24 to 2025/26. 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 2023/24 to 2025/26 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 2023/24;
- (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 November 2021 (report 339/21 refers) which covered the 3 year period 2022/23 to 2024/25. The Council is asked to approve this updated strategy covering the 3 year period 2023/24 to 2025/26 which is attached at Appendix A.

3.2 The funding gaps and financial challenges facing the Council will continue in the years ahead. It is reasonable to conclude that, due to various world events, prevailing rates of inflation and a challenging outlook for the public finances generally, the Council's budget and financial situation is now in an even more difficult position than had been expected in March 2022. High levels of inflation are now a major and very real threat to the Council's financial sustainability which will have far reaching consequences for the services the Council provides.

- 3.3 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 at Annex A is broken down into 5 main sections as follows:-

- Background & Need for A Medium Term Budget Strategy
- Revenue Budget Financial Projections (2023/24 to 2025/26)
- Options and Plans for Bridging the Projected Funding Gap
- Capital Budget Financial Projections (2023/24 to 2026/27)
- Conclusions

5. REVENUE BUDGET FINANCIAL PROJECTIONS 2023/24 TO 2025/26

- 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 confirmation of Scottish Government grant allocations and key cost variables such as pay inflation. These are the main factors influencing the variances between the 3 scenarios.

Table 1a – Estimated Funding Gap (Base Projection)

	2023/24 £million	2024/25 £million	2025/26 £million	3 Year Total £million
Funding shortfall	22.861	13.635	15.395	51.891
% age Level of Savings Needed	8.5%	5.1%	5.7%	19.3%

Table 1b – Estimated Funding Gap (Optimistic View)

	2023/24 £million	2024/25 £million	2025/26 £million	3 Year Total £million
Funding shortfall	21.067	12.701	14.440	48.208
% age Level of Savings Needed	7.8%	4.7%	5.4%	17.9%

Table 1c – Estimated Funding Gap (Pessimistic View)

	2023/24 £million	2024/25 £million	2025/26 £million	3 Year Total £million
Funding shortfall	26.938	20.118	21.429	68.485
% age Level of Savings Needed	10.0%	7.5%	8.0%	25.5%

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 Members should note that the projected funding gaps for 2023/24 to 2025/26 shown above assume that the level of grant the Council receives from the Scottish Government will remain the same in cash terms. This is consistent with the information published by the Government in their Resource Spending Review in May 2022. With inflation being so high this would represent a significant real terms reduction in grant should this be what happens. **Given recent announcements by the UK Chancellor regarding the outlook for public spending there now appears to be a sizeable risk that grant levels to Scottish Councils could be reduced in cash terms, i.e. a worse position than that published in May. Should this risk materialise the funding gaps shown will widen, potentially significantly. Each 1% reduction in Scottish Government grant to the Council would increase the funding gap by £2.5 million.**

5.4 Movement in 2023/24 Projections

The projected baseline funding gap reported for 2023/24 in Report 339/21 in November 2021 was £11.367 million. It will be noted from Table 1a above that the projected funding gap for 2023/24 is now £22.861 million, an increase of £11.494 million. This increase reflects the additional pressures and issues now expected to affect the 2023/24 budget as detailed later in Table 1e.

5.5 Comparison of Projected and Actual Funding Gap for 2022/23 Financial Year

Table 1d below sets out the projected versus actual position of the funding gap for 2022/23. From the table it can be seen that the projected funding gap of £12.203 million per the MTBS report 339/21 in November 2021 moved to an actual funding gap of £13.937 million per report 62/22 (Provisional Revenue & Capital Budgets 2022/23 – Background Report) to Special Angus Council in March 2022. This was an increase to the projected funding gap of £1.734 million.

Table 1 d – Comparison of actual and projected funding gap 2022/23

Committee Report	Funding Gap 2022/23 £million
MTBS report 339/21 – November 2021	12.203
Provisional Revenue & Capital Budget – Background Report 62/22 - March 2022	13.937
2022/23 Funding Gap Increase @ Council Tax Setting Meeting	1.734

5.6 Funding Gap Causes – historic and future

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 unprecedented high inflation, affecting pay, energy, fuel, food and material costs;
- c. Rising costs due to increased demand for some services;
- d. The increased reliance on reserves to balance the budget.

5.7 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 there was a rise in government grant for 2022/23, it is important to highlight that almost all the additional funding was either for ring fenced or for specific additional spending commitments the Council must implement such as employing additional teachers and the expansion of free school meals. The majority of the increased grant had to be passed on to the Angus Health and Social Care partnership. After allowing for this the proportion of available to support inflationary increases in costs and other budget pressures was insufficient to avoid further budget savings having to be made.

5.8 Government grant pays for 81% 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 19% of the net cost of Council services.

- 5.9 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 the supplies the Council needs to buy to provide services plus the continuing rise in energy inflation that we that must dealt with. There is also risk in areas such as pay where negotiations with some trade unions are ongoing, staff pay is the Council's biggest cost - each 1% rise in pay costs for Local Government / Teachers is equivalent to circa £1.9m.
- 5.10 Services such as care for older people have seen rising demand in recent years because of a growing population of older people. Other services, such as 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 range of services it used to.
- 5.11 Table 1e below sets out the 6 biggest areas that make up the bulk of 2023/24 projected funding gap of £22.861 million shown in the base projection scenario.

Table 1e – Main Influences On 2023/24 Base Scenario Funding Gap

Budget Area	£million
Pay Award:	
- 2022/23 excess over budget / Scottish Government funding *	3.700
- 2023/24	6.408
Increase Energy Costs Due to Rising Prices/Inflation	1.800
Contractual Inflation on PPP Contracts	1.485
Residential Placements and External Fostering – based on rising demand	2.000
Angus Council share of Angus Health and Social Care pressures	2.195
General Fund Reserves used as one off funding in 2022/23	3.960
Total	21.548

*note that Teachers 2022/23 pay award is not yet concluded so this figure may rise

- 5.12 The combined effect of reducing income and rising costs creates the projected funding gaps described in this report in addition to the funding gap evident in the 2022/23 budget setting. 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 will all be necessary to help pay for the rising costs elsewhere in the budget.
- 5.13 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 5% target led savings over a 3 year period and these have been included in the Change Programme under Service Contractions. More recently Challenge Panel sessions (Scenario Planning) have been undertaken with services to identify further options for savings for inclusion in the Change Programme savings as part of the budget process. Officers in the services are currently undertaking detailed work to identify potential savings and risks and once completed any savings identified will be added to the Change Programme savings figures reported in this report.
- 5.14 At this stage savings options in the Council's Change Programme of up to £14.561 million have been identified for bridging the funding gap in financial years 2023/24 and 2024/25. A new "Year 3" covering financial year 2025/26 has still to be added to the Change Programme at this stage. Clearly this is very well short of the sums projected to be required and highlights the scale of the challenge. Members will be regularly 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 identification of new options of projects from the Scenario Planning exercise within the Change Programme should assist with these continued challenges.

Severity of the Challenge and Implications for Services

- 5.15 The further savings projected to be required over the next 3 years are in addition to the £78.1m (26%) million saved in the last 10 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.
- 5.16 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 based on current information.
- 5.17 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.
- 5.18 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.

- 5.19 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 planning framework 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 2023/24 – 2025/26

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