

ANGUS COUNCIL – 9 FEBRUARY 2023

2022/23 GENERAL FUND REVENUE BUDGET - ALTERNATIVE SPEND ANALYSIS

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report presents the Council's budget and spending on an alternative basis from the traditional cost type approach which is used for budget setting and financial reporting. The report is intended to help elected members, Council staff and the general public better understand what most of the Council's money is spent on – not just by service but by activity and what the money buys. The report is based on budget information for the current financial year (2022/23) and will be of interest as the Council approaches the setting of its 2023/24 revenue budget.

1. RECOMMENDATION

1.1 It is recommended the Council:-

- a) Note the background to this Report and the reason it is being brought forward at this time;
- b) Review the analysis in the Report and its Appendices and provide any commentary considered appropriate at this time; and
- c) Note the implications/observations set out in Section 6 of the Report.

2. ALIGNMENT TO COUNCIL PLAN

2.1 This report contributes to the following strategic priorities in the Angus Council Plan, we want:

- Angus Council to be efficient and effective

3. BACKGROUND

3.1 The Council is a complex multi-million pound organisation which is responsible for providing dozens of vital services to local people and complying with hundreds of duties and powers set out in legislation. The Council faces enormous challenges in the next few years to remain financially sustainable and will have to make significant reductions in its costs and increases in Council Tax, fees and charges to keep its finances in balance.

3.2 The scale of the financial challenge and the consequences of addressing it mean it is more important than ever that there is a clear understanding about where the Council currently spends the money it has and how this will have to change into the future.

3.3 For ease of administration and clarity of delegation to budget holders the Council sets its budgets based on Directorates (covering different services) and by cost type (such as staff costs) so that we know how much is spent in each service and on what type of cost. This approach is common across all Councils and works perfectly well for financial reporting and governance purposes. That approach does however make the finances of the Council less understandable and relatable to lay people and particularly members of the public.

3.4 This report therefore presents the Council's budget in a different way intended to help elected members, Council staff and the general public better understand what most of the Council's money is spent on – not just by service but by activity and what the money buys. The report does not re-present the entirety of the Council's budget – it focuses on the largest areas only to avoid an overload of detail. The report is based on budget information for the current financial year (2022/23).

4. ALTERNATIVE ANALYSIS - BY DIRECTORATE

4.1 The Council's 2022/23 General Fund Revenue Budget has been analysed and is presented in the following appendices:-

Appendix A – Education and Lifelong Learning

Appendix B – Infrastructure and Environment

Appendix C – Children, Families & Justice

Appendix D – Human Resources, Digital Enablement, IT and Business Support

Appendix E – Strategic Policy, Transformation & Public Sector Reform

Appendix F – Vibrant Communities and Sustainable Growth

Appendix G – Finance including Revenues, Benefits & Welfare Rights

Appendix H – Legal and Democratic Services including Licensing

Appendix I – Facilities Management

Appendix J – Other Services/Joint Arrangements

Appendix K – Corporate Items and Capital Financing Costs

Appendix L – Angus Health & Social Care Partnership and Joint Board/Arrangement

4.2 The timing of this report relative to the conclusion of pay negotiations means that the budget for the cost of 2022/23 pay deals has been shown as a single item in Appendix K. Once all pay deals have been concluded and costs confirmed the pay budget will be allocated out to each service.

4.3 Appendices A to L show what the largest areas of expenditure are within each Council service. It is likely that reference to the appendices will be made on a regular basis as the Council seeks to address its financial challenges over the next few years.

4.4 The figures shown in this report and all of its appendices are based on the budgeted position set out in the 2022/23 Final Revenue Budget Volume. Members will be aware from the regular budget monitoring reports submitted to the Policy & Resources Committee that actual expenditure and income does sometimes vary from the budget estimate. In 2022/23 significant overspends on energy costs and looked after children costs are being experienced so the budgets for these areas in this report understate what is happening in practice. It is also important to note that in areas such as road and property maintenance the Council undertakes works of this nature through its capital budget as well as its revenue budget – the figures in this report only cover the revenue budget part of such works.

5. ALTERNATIVE ANALYSIS – TOP 50 AREAS OF EXPENDITURE

5.1 The Council's Medium Term Budget Strategy (MTBS Report 361/22 refers) projects that the Council will need to save nearly £52m in the next 3 years. Some of that figure may be able to come from additional income including Council Tax increases and increases in the fees and charges the Council levies for some services. Whatever amount of the £52m is not covered by additional income will need to be met by cuts in expenditure and those cuts in expenditure have to be made where the money is currently being spent.

5.2 Cuts in expenditure on the scale required make it inevitable that those areas which incur the greatest costs will have to be looked at in detail and contribute the majority of the spending cuts required. With this in mind the revenue budget has been analysed into a top 50 to make clear what those largest areas of expenditure currently are. Appendix M provides the top 50 listing in descending order of value. The information in Appendix M is a different way of presenting the information in Appendices A to L but with some aggregation of similar items.

5.3 Table 1 below shows the top 15 areas of expenditure taken from Appendix M. These top 15 areas cover 71.9% of the Council's total net budget (£314.1 million). Some of these areas of expenditure are partially covered by government grant income which reduces the overall cost the Council has to pay. The figures shown in Table 1 are the gross cost.

Table 1 – Top 15 Areas of Expenditure by Value – 2022/23 General Fund Revenue Budget

	Area of Spend	Value £m	% of Council Net Budget
1	Angus Council funding to Angus Health & Social Care Partnership	65.5	20.9
2	Primary School Teaching Staff	32.7	10.4
3	Secondary School Teaching Staff	32.7	10.4
4	Grants shown as income in other service areas (specific grants)	15.0	4.8
5	Early Years (early learning and childcare) Staff Costs	13.0	4.1
6	PPP Contracts Payments for new school buildings and maintenance	11.7	3.7
7	A92 PFI Net Charges - Dual Carriageway Arbroath to Dundee	7.6	2.4
8	Payments to other providers of early learning and childcare	7.3	2.3
9	Provision for staff pay increases	6.7	2.1
10	Repayments of Loans (principal) to fund capital expenditure	6.2	2.0
11	Incineration costs - residual (purple bin) waste	5.9	1.9
12	Additional Support Needs (ASN) Teaching Staff	5.8	1.8
13	Council Tax Reduction Scheme (formerly Council Tax Benefit)	5.6	1.8
14	School meals costs - primary, secondary, ASN, Early Learning	5.5	1.8
15	Interest costs on Loans	4.7	1.5
	Total – Top 15	225.9	71.9

6. IMPLICATIONS/OBSERVATIONS

Local Government Funding Model

- 6.1 The projected funding gap the Council has to address in the next 3 years of £52 million, if addressed solely from increases in Council Tax, would require an increase in the current level of Band D Council tax of **88%**. Clearly that is not a realistic option but it does serve to emphasise the extent to which the Council relies on grant from the Scottish Government for the majority of its funding.
- 6.2 As has been highlighted by The Accounts Commission in its report on Local Government in Scotland Financial Overview 2020/21 Scottish Government funding for local government has fallen in real terms by 4.2% since 2013/14. With the expectation of further significant real terms cuts in grant funding to Councils in the next few years the existing model of funding local government services will be under strain as never before. The scale of cuts which are going to be required to close the £52 million gap will be significant and calls into serious question whether the current model of funding local government services is fit for purpose and in any way sustainable for the longer term.

Improving Efficiency / Reality Check

- 6.3 It is incumbent on all public bodies to use the money they receive through local and national taxation in a manner which provides best value to taxpayers and this means being efficient and effective. The Angus Council Best Value Audit Report published in July 2022 gives an independent view that the Council does provide best value. Further evidence of the Council's efficiency can be found in the scale of budget savings made since the Council began and in the level of Council Tax in Angus which is one of the lowest in Scotland.
- 6.4 While there is strong evidence that Angus Council already provides services which represent best value there is a need to continue to innovate and adapt to maintain that position and that means seeking further opportunities to improve efficiency. The Council's Change Programme will therefore continue to include savings options which reduce costs through more efficient methods of delivering services. This may be through internal efficiency improvements, the use of digital technology, energy efficiency measures and more collaboration with partners including other Councils, the private sector and the third sector.
- 6.5 There does however have to be a reality check on how much of the projected funding gap can be bridged by efficiency changes alone. Given the scale of change and savings already made by the Council over the last decade the opportunities for further efficiency savings are limited and this means the majority of the funding gap will come from direct service cuts.

6.6 Various commentators on local government services suggest greater collaboration and working with partners and communities holds the key to local government's financial challenges. While these suggestions have merit and can play a part they do not reflect the realities of where and why the Council spends most of its money. As can be seen from the table in Section 5.3, the vast majority of the Council's spending is in schools, adult care services and waste services. There are either limited opportunities to collaborate in those areas or the Council is already doing so on a significant scale.

A Growing Mismatch Between Funding & Duties/Expectations

6.7 The funds available to provide public services rely on the performance of the wider economy there is no automatic entitlement to well funded public services. Clearly at the present time a combination of the financial and economic legacy from COVID-19 and high inflation are putting huge pressure on the funds available to provide public services including those which Angus Council must provide.

6.8 While severe limitations on the funds available in real terms are a concern the primary concern for Council officers at this moment in time is the widening gap between the funding the Council receives and the duties the Council is required to carry out with that funding. This position is exacerbated by a sizeable amount of the funding provided by the Scottish Government being ring-fenced for specific policies. Put simply if funds are constrained and limited then the duties and expectations which go along with that need to be realistic and adjusted to match. There is already a mismatch between:-

1. The funding the Council receives from Government Grant and Council taxes;
2. The very large and ever growing number of legal duties placed upon the Council; and
3. The demand for Council services and public expectations of what can realistically be provided.

6.9 The current mismatch is only going to grow in the period ahead unless there is more funding, less demand or the duties placed upon Councils are reduced. As has been highlighted in the Council's Corporate Risk Register the risk of the Council becoming financially unsustainable and being unable to meet all of its statutory duties is very high already and that risk will increase without a rethink about what Councils are required to do, how they operate and how they are funded.

Conclusion

6.10 The purpose of this report is to help make the Council's budget and how the money is used more relatable and to explain how challenging it is going to be to address future funding gaps. Members of Council are recommended to review the comments in paragraphs 6.1 to 6.9 above and the analysis in the appendices and provide any commentary considered appropriate at this time.

7. FINANCIAL IMPLICATIONS

7.1 There are no financial implication arising from the recommendations in this report.

8. EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact assessment is not required.

**IAN LORIMER
DIRECTOR OF FINANCE**

NOTE: No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing this Report.

**AUTHOR: Ian Lorimer, Director of Finance
EMAIL: FINANCE@angus.gov.uk**

List of Appendices

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Appendix M – Top 50 Areas of Expenditure