

AGENDA ITEM NO 12

REPORT NO 241/23

ANGUS COUNCIL – 7 SEPTEMBER 2023

LONG TERM FINANCIAL PLANNING FRAMEWORK (LTFPF)

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

ABSTRACT

This report presents a long term financial planning framework for the Council to adopt and use to aid future service and financial planning. The Framework is intended to complement existing service and financial planning arrangements such as the annual preparation of a Medium Term Budget Strategy and the annual Review of the Long Term Affordability of the Council's Capital Budget Plans. The Framework is the first such long term financial planning tool prepared for the Council and also includes the Council's first detailed financial resilience assessment.

1. RECOMMENDATION

It is recommended that the Council:

- a. note the contents of this report and Appendix A and in particular the need to continue to plan over the medium to long term to meet the significant financial challenges which the Council faces;
- b. note the results of the financial resilience assessment (Section 4 in Appendix A);
- c. note the challenges and concerns regarding the Council's long term financial sustainability (Section 13 of Appendix A);
- d. approve the Long Term Financial Planning Framework attached as Appendix A as a forward planning tool to inform future service and financial planning;
- e. note the intention to update the Framework every 3 to 5 years or more regularly if required.

2. ALIGNMENT TO THE 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 Longer term service and financial planning is an important part of any organisation's activity so that it can prepare for challenges and opportunities which may lie ahead and it can reduce the risk of having to be reactionary to what's going on. Failing to plan is planning to fail.

3.2 The Council has for many years prepared a rolling 3 year Medium Term Budget Strategy (MTBS) for General Fund services and annually reviews the affordability of its capital spending plans over a 25 year period. It has not though, to date, adopted a longer term approach to service and financial planning. Planning over the longer term is considered to be best practice and the Council's 2022 Best Value Assurance Report included a recommendation to "introduce the partially developed long-term financial planning framework".

- 3.3 Officers have considered how best to approach long term financial planning and concluded that preparing detailed financial projections like those prepared for the MTBS would consume staff resources which are already stretched and be of limited value due to the scale of uncertainty which exists the further into the future we try to project our expenditure and income. Officers consider that it would be more useful to instead have a broad framework for longer term financial planning which can identify potential issues and opportunities and be used to inform and guide our annual and medium term budgets and plans.

4. LONG TERM FINANCIAL PLANNING FRAMEWORK

- 4.1 The purpose of the Longer Term Financial Planning Framework (LTFFP) (The Framework) is to assess in broad terms what issues and circumstances may affect the Council's finances over the next 5 to 10 years and to use this assessment to help plan our more detailed work on medium term financial planning and budget preparation alongside medium term corporate and service planning. The Framework is intended as a strategic planning tool which focuses on key themes rather than detailed financial calculations. It is envisaged The Framework would be reviewed and updated on a 3 to 5 year cycle or more regularly if required.
- 4.2 The Framework uses a PESTLE (Political, Economic, Sociological, Technological, Legal and Environmental) analysis to identify the risks, challenges and opportunities the Council needs to plan for which could affect the Council's costs and incomes (revenue and capital), its assets and liabilities and its reserves over a 5 to 10 year planning horizon. The Framework will provide a useful basis from which to prepare future updates to the Council's 3 year medium term budget strategies.
- 4.3 Financial Planning over a long term horizon is challenging for any organisation but is especially so for a public body like the Council which relies on Scottish Government grants for most of its funding and which can have large changes in the scope of its responsibilities imposed through changes in legislation. In practice the Council has only partial influence over its future responsibilities and finances.
- 4.4 The Council has had to manage its way through severe financial restrictions over the last decade or so and respond at short notice to a succession of one-year grant funding settlements from government. This year to year approach to funding of public services at a national level is sub-optimal and it has to be recognised that the Council's ability to plan effectively and meaningfully for the medium and longer term is affected to a large extent by decisions made by the UK and Scottish Governments. The recently signed Verity House Agreement will hopefully result in funding allocation information being available on a medium term basis.
- 4.5 The first edition of a Long Term Financial Planning Framework for the Council is attached at Appendix A and elected members are being asked to approve the adoption of this Framework for use in the Council's corporate, service and financial planning over the next few years. The Framework does not in itself commit the Council to specific actions or introduce new policies. Rather the Framework 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.
- 4.6 Section 12 of Appendix A identifies key actions arising from the PESTLE analysis. Many of these actions are already in progress while others will need to be started and taken forward.
- 4.7 A small number of very significant issues will dominate the Council's services and finances over the next 10 years. These issues will be central to our corporate, service, workforce and financial planning over that 10 year period. Table 1 below (taken from Section 14 of Appendix A) lists the most significant issues and their expected impact and influence over the short (1-2 years), medium (2-5 years) and long term (5-10 years).

Table 1 – Key Influences in short, medium and long term

Key Influence	Short Term 1-2yrs	Medium Term 2-5yrs	Long Term 5-10yrs
<u>1. Climate Change</u>			
a) Investment in decarbonisation/net zero	✓	✓	✓
b) Severe weather response and repairs	✓	✓	✓
c) Impact mitigation measures	✓	✓	✓
<u>2. Local Government Services & Funding</u>			
a) Verity House Agreement implementation	✓	✓	
b) Local/Scottish Government Fiscal Framework implementation	✓	✓	
c) Local taxation & funding reform	✓	✓	✓
d) Local Govt financial sustainability addressed		✓	
<u>3. Partnership & Collaboration</u>			
a) Increased community ownership and running of services – savings potential but will need investment	✓	✓	✓
b) Increased shared services – savings and resilience benefits but will need upfront investment to deliver		✓	✓
c) Major reform of local government/public services structures/services – local governance review		✓	✓
<u>4. Workforce</u>			
a) Workforce demographic issues addressed – will require investment in young workforce	✓	✓	✓
b) Agile and flexible working developed to full extent	✓	✓	
c) Recruitment and retention issues addressed – likely to require pay structure changes		✓	✓
<u>5. Digital and Data</u>			
a) Digital and data strategies developed and delivered – sizeable investment and savings opportunity	✓	✓	
b) Increased automation and customer self-service		✓	✓

5. FINANCIAL RESILIENCE ASSESSMENT

5.1 At its meeting in October 2022 the Scrutiny & Audit Committee considered Report 355/22 which set out the Council's compliance with the CIPFA Financial Management Code best practice. One of the few actions identified from that self-evaluation was the need to undertake a financial resilience assessment. This has now been done in Section 4 of Appendix A which includes a detailed narrative to explain the conclusions reached and the performance indicators used in making the assessment. The results are summarised in Table 2 below.

Table 2 – Financial Resilience Assessment Summary

Category	Financial Resilience Assessment
Assessment Category 1 – Reserves	STRONG
Assessment Category 2 – Expenditure	WEAK
Assessment Category 3 – Income	ADEQUATE
Assessment Category 4 – Cashflow & Borrowing	STRONG
Assessment Category 5 – Budget Performance	STRONG
Assessment Category 6 – Forward Planning	STRONG
Overall Assessment	ADEQUATE*

* - but for the significant risks on the expenditure category much of which is beyond the Council's control the overall assessment would have been Strong.

- 5.2 The overall conclusion from the assessment undertaken is that the Council has a good level of financial resilience in most of the categories considered and in the performance measures reviewed. The position is positive in terms of Reserves, Cashflow, Borrowing, Budget Management and Forward Planning – all vital areas to financial resilience. The only area of concern is in relation to expenditure and the legislative/policy constraints and demand pressures affecting expenditure – those arrangements cannot be sustained as they operate currently and that puts the Council's overall financial sustainability at risk.
- 5.3 In short the Council's financial resilience at the time of writing (August 2023) is acceptable but without changes in funding and/or expenditure that position will be eroded, potentially quite quickly.

6. LONG TERM FINANCIAL SUSTAINABILITY ASSESSMENT

- 6.1 Section 13 of Appendix A takes the financial resilience assessment and the PESTLE analysis and assesses the long term financial sustainability of the Council in that context. The assessment is based on the best estimates of the Council's future financial position and with the knowledge that significant changes to services and financial savings have already been removed from the Council's budget.
- 6.2 The financial sustainability assessment notes that the changes required in the local government system are considered to be:-
- a. Changes to the funding model - Councils have to be properly funded for the full scope of responsibilities and services they are required to deliver. This will require some or all of the following:- additional government grant; changes to Council Tax and the system of funding; new tax raising powers for Councils at scale and more flexibility on how the funding available can be used.
 - b. If changes to the funding model aren't possible in full or to the scale required then there needs to be reductions and modifications to the scope of legal responsibilities (statutory duties) which Councils are required to discharge (without loss of existing funding). Changes to the statutory framework Councils operate within to enable greater collaboration and innovation will also be required. This will have implications for how public services are provided and for new legislation which the Scottish Parliament may wish to implement.
- 6.3 Ultimately there is a need to have a system which better matches the funding available to the scope of services to be provided and how they can be provided. At present Councils are being asked to do too much with too little resources to the point that some areas of service are at the point of crisis and much of our core infrastructure is in managed decline.
- 6.4 While the long term financial outlook is, at this moment in time, quite gloomy and the risk of local government as a sector becoming financially unsustainable has never been higher there are positive developments which can start to make a difference. The relevance and potential impact of these have been covered elsewhere in The Framework but include:-
- The Verity House Agreement
 - A New Fiscal Framework Between Scottish and Local Government
 - The Local Governance Review
- 6.5 These changes aren't a panacea to the financial sustainability challenges faced by Councils in Scotland but they are a strong start towards addressing those challenges. Council services are vital to society so making the necessary changes is not something which can be allowed to fail.
- 6.6 Whilst the future is uncertain and its probable that changes in the funds available for public service provision from the UK and Scottish Governments will vary to some extent (positively or negatively) from those already published, it is now obvious that the current system of local government has reached a tipping point where fundamental change is required.

6.7 Unless changes are made along the lines of those referred to in Section 13 of Appendix A (and there are signs this is happening) it is difficult to see how Angus Council can be financially sustainable over the medium to long term because the scale of reductions required to staffing in particular will have been so severe as to leave many Council services unable to function. The warning signs are already there that Council services and staff are struggling to cope and the prospect of further cuts to the scale projected to 2025/26 can only make that worse.

7. FINANCIAL IMPLICATIONS

7.1 There are no additional financial implications for the Council arising from this report. The Framework will however be an important planning tool for the Council as it prepares future plans and budgets.

8. EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment is not required since the Framework proposes no specific policy or service changes at this time.

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 – Long Term Financial Planning Framework