

**ANGUS COUNCIL – 14 DECEMBER 2023**

**MEDIUM TERM BUDGET STRATEGY 2024/25 TO 2026/27**

**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 2024/25 to 2026/27. 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. RECOMMENDATIONS**

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 continued significant financial challenges which the Council faces;
- (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) notes the commentary on the implications for the Council's financial sustainability set out in Section 6 of the report;
- (d) approves the updated Medium Term Budget Strategy for the period 2024/25 to 2026/27 attached as Appendix A to this report;
- (e) notes the central role of the Council's Change Programme in trying to address the projected funding gap and the work that is being undertaken to update 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 2024/25;
- (f) 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; and
- (g) 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 2022 (report 361/22 refers) which covered the 3 year period 2023/24 to 2025/26. The Council is asked to approve this updated strategy covering the 3 year period 2024/25 to 2026/27 which is attached at Appendix A. The updated strategy has been prepared in the context of the Council's Long Term Financial Planning Framework (LTFPF) agreed by Council in September 2023 (Report [241/23](#) refers).

3.2 Significant funding gaps and huge financial challenges are expected to continue to face the Council in the years ahead and as highlighted in Report 241/23 this calls into question the Council's financial sustainability over the medium to long term. It is reasonable to conclude that, due to various world events, in particular the recent storms endured across Angus, 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 2023 when the 2023/24 budget was set.

- 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 Appendix A is broken down into 5 main sections as follows:-

- Background & Need for A Medium Term Budget Strategy
- Revenue Budget Financial Projections (2024/25 to 2026/27)
- Options and Plans for Bridging the Projected Funding Gap
- Capital Budget Financial Projections (2024/25 to 2027/28)
- Conclusions

#### 5. REVENUE BUDGET FINANCIAL PROJECTIONS 2024/25 TO 2026/27

- 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)**

	2024/25 £million	2025/26 £million	2026/27 £million	3 Year Total £million
<b>Funding shortfall</b>	<b>20.797</b>	<b>14.208</b>	<b>14.887</b>	<b>49.892</b>
<b>% age Level of Savings Needed</b>	<b>7.2</b>	<b>4.9</b>	<b>5.1</b>	<b>17.2</b>

**Table 1b – Estimated Funding Gap (Optimistic View)**

	2024/25 £million	2025/26 £million	2026/27 £million	3 Year Total £million
<b>Funding shortfall</b>	<b>15.857</b>	<b>10.579</b>	<b>10.978</b>	<b>37.414</b>
<b>% age Level of Savings Needed</b>	<b>5.5</b>	<b>3.7</b>	<b>3.8</b>	<b>12.9</b>

**Table 1c – Estimated Funding Gap (Pessimistic View)**

	2024/25 £million	2025/26 £million	2026/27 £million	3 Year Total £million
<b>Funding shortfall</b>	<b>24.729</b>	<b>16.464</b>	<b>16.890</b>	<b>58.082</b>
<b>% age Level of Savings Needed</b>	<b>8.5</b>	<b>5.7</b>	<b>5.8</b>	<b>20.1</b>

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 a significant proportion of the Council's budget is 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 The Scottish Government published their latest Medium Term Financial Strategy on 25 May 2023, alongside a revised Resource Spending Review (RSR), originally reported in May 2022. This latest update does not give any further insight regarding grant allocations to Councils and we have, therefore, been required to make our own assumptions based on prior experience. It should also be highlighted that the recent 2022 census results may impact future grant allocations as a number of Grant Aided Expenditure (GAE) allocations have population as the full or partial determinant of each Council's share. Given that the Angus population has dropped by 1.5% in comparison to an All Scotland reduction of only 0.15% this will likely mean a reduction in our relative share of government grant. Further detailed work is required to undertake this calculation, however based on a preliminary review of the population based allocations we have assumed a reduction of £0.600 million for 2024/25.

5.4 Movement in 2024/25 Projections

The projected baseline funding gap reported for 2024/25 in Report 361/22 in November 2022 was £13.635 million. It will be noted from Table 1a above that the projected funding gap for 2024/25 is now £20.797 million, an increase of £7.162 million. This increase reflects the additional budget pressures and issues now expected to affect the 2024/25 budget as detailed later in Table 1e.

5.5 Comparison of Projected and Actual Funding Gap for 2023/24 Financial Year

Table 1d below sets out the projected versus actual position of the funding gap for 2023/24. From the table it can be seen that the projected funding gap of £22.864 million per the MTBS report 361/22 in November 2022 moved to an actual funding gap of £25.934 million per report 54/23 (Provisional Revenue & Capital Budgets 2023/24 – Background Report and Setting of the 2023/24 Council Tax) to Special Angus Council in March 2023. This was an increase to the projected funding gap of £3.070 million but some £3.1 million of this variance was for one-off investments so the actual and projected positions on a like for like basis were very similar.

**Table 1 d – Comparison of actual and projected funding gap 2023/24**

<b>Committee Report</b>	<b>Funding Gap 2023/24 £million</b>
MTBS report 361/22 – November 2022	22.864
Provisional Revenue & Capital Budget – Background Report and Setting of the 2023/24 Council Tax (Report 54/23 - March 2023)	25.934
<b>2023/24 Funding Gap Increase @ Council Tax Setting Meeting</b>	<b>3.070</b>

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. Actual and projected 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) plus new risks from 2022 census results for GAE allocations as highlighted in section 5.3;
- 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 e.g. looked after children;
- d. A reliance on reserves to balance the budget.

5.7 The above historic and projected future causes bring about increased risks and challenges on the Council's budget with managing demand a significant challenge year on year as Government grant for core and existing services is projected to reduce in real terms. Although there was a rise in government grant for 2023/24, it is important to highlight that almost all the additional funding was either ring fenced or for specific additional spending commitments the Council must implement such as the 2022/23 staff pay deal, Non Domestic Rates Empty Property Relief and the continued expansion of universal Free School Meals. In addition to this the Council had to pass over £2.9

million of this additional funding to the Angus Health and Social Care Partnership on a ring fenced basis. After allowing for this the proportion available to support inflationary increases in costs and other budget pressures was insufficient to avoid further budget savings/cuts 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 rise in energy costs that must be dealt with. There are also pressures with annual pay deal negotiations with trade unions, staff pay is the Council's biggest cost - each 1% rise in pay costs for Local Government staff and 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 biggest areas that make up the bulk of 2024/25 projected funding gap of £20.797 million shown in the base projection scenario Table 1a.

**Table 1e – Main Influences On 2024/25 Base Scenario Funding Gap**

Budget Area	£million
Assumed Cost of Pay Inflation	6.318
Local Transport – contractual inflation	0.702
MEB - Residual Waste Contract – Reduction in excess revenue share from contract due to dropping energy prices	1.264
MEB – Waste Disposal Contract – contractual inflation	0.505
Third Party Costs – contractual inflation	1.375
Contractual Inflation on PPP Contracts	0.663
Residential Placements and External Fostering – based on rising demand	3.379
Angus Council share of Angus Health and Social Care pressures	0.365
Additional Capital Financing Costs from capital spending	0.656
General Fund Reserves used as one off funding in 2023/24	3.474
Assumed Reduction in Government Grant Income	0.873
Projected Reduction in Change Programme Savings	0.700
<b>Total</b>	<b>20.274</b>

- 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 2023/24 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. 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.
- 5.14 At this stage savings options in the Council's Change Programme of up to £8.226 million have been identified for bridging the funding gap in financial years 2024/25 and 2025/26. A new "Year 3" covering financial year 2026/27 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 yet more significant changes and reductions to services are going to be required.

5.15 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.

5.16 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 has also now been developed.

**6. IMPLICATIONS FOR THE COUNCIL'S FINANCIAL SUSTAINABILITY**

6.1 The base projected funding gap set out in Table 1a is based on assumptions, the most significant of these being future grant allocations from the Scottish Government. If as has been projected government grant for existing service provision remains static in cash terms over the next 3 financial years then that along with the projected impact of pay and general inflation will create a funding gap (£50 million) which the Council is unlikely to be able to close whilst fulfilling its statutory duties.

6.2 By the end of the current financial year the Council will have saved around £91 million (27.5%) from its budget since 2013/14. It has also raised Council Tax and fees and charges and used reserves to cover budget gaps so the total budget shortfalls the Council has had to address over that period are well over £100 million. Continuing to address funding shortfalls on that scale year after year through service redesign, and cuts to staffing and other spending is simply not sustainable on an ongoing basis.

6.3 If the £50 million projected funding gap for the next 3 years proves to be accurate it would be possible to close some of this gap through Council Tax increases and use of reserves and an estimate of £15 million for this would be reasonable leaving a remaining gap of £35 million. That remaining gap would require budget savings to that value in addition to the £91 million already saved giving a cumulative total of £126 million over a 14 year period. Cumulative savings of £126 million is just under 38% of the Council's current net revenue budget.

6.4 It is important to remember that the projected funding gaps in this report are best estimates rather than facts and the position would be much less severe if Scottish Government grant funding for existing service provision were to rise in line with inflation. The Verity House Agreement and associated Fiscal Framework may deliver a better grant settlement than has been assumed in this report. However, if the budget position being projected is what happens in practice over the next 3 years I must advise members that I cannot currently see how it will be possible to make further savings on the scale required whilst continuing to fulfil all of the Council's many statutory duties by the end of that 3 year period.

6.5 As was highlighted in the Long Term Financial Planning Framework (Report 241/23) to Council in September 2023 the current system of local government services and funding is an unsustainable model – a broken system. This points towards a need for radical changes in how the money needed to provide Council services is raised through national and local taxation as well as through local service charges. 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.

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.

- 6.6 The MTBS should leave Councillors and members of the public in no doubt about the severity of the challenges the Council faces in the years ahead. 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 make it manageable. The scale of budget issues coming forward is much higher than previously assumed and some of the savings values in the Change Programme now look undeliverable to the level previously targeted. This alongside cost pressures caused by general inflation and pay inflation and the uncertainty around Scottish Government grant funding (including funding to support a Council Tax freeze) are concerning. It will again be very challenging to deliver a balanced budget for the next financial year even if significant service cuts are implemented.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 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 and its sustainability but these matters will be the subject of separate reports to Council and appropriate committees in the future.

## **8. EQUALITY IMPACT ASSESSMENT**

- 8.1 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 2024/25 – 2026/27

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