

ANGUS COUNCIL

ANGUS COUNCIL – 19 DECEMBER 2024

MEDIUM TERM BUDGET STRATEGY 2025/26 TO 2027/28

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

1. 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 2025/26 to 2027/28. Such a strategy is critical to the council's medium term financial planning arrangements and in view of the ongoing constraints on public spending.

2. ALIGNMENT TO THE COUNCIL PLAN AND COUNCIL POLICIES

This report contributes as a whole to the Council Plan.

3. RECOMMENDATIONS

It is recommended that the Council:

- i. 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;
- ii. notes that while the position for financial year 2025/26 is much improved following recent announcements regarding funding by the Scottish Government the Council still faces significant financial challenges in the years ahead to remain financially sustainable and that this will have a significant and unavoidable impact on services to the public and the taxes and charges which the Council levies;
- iii. notes the commentary on the implications for the Council's financial sustainability set out in Section 6 of the report;
- iv. approves the updated Medium Term Budget Strategy for the period 2025/26 to 2027/28 attached as Appendix A to this report;
- v. 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 2025/26;
- vi. notes that it is essential that the Council plans its budget strategy over a rolling 3 year period and makes decisions to ensure savings are planned and made across that rolling 3 year period; and
- vii. 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 4 year strategy for the capital budget.

4. BACKGROUND - MEDIUM TERM BUDGET STRATEGY (MTBS)

- 4.1 This report updates the position that was set out in December 2023 ([report 353/23](#) refers) which covered the 3 year period 2024/25 to 2026/27. The Council is asked to approve this updated strategy covering the 3 year period 2025/26 to 2027/28 which is attached at Appendix A. The updated strategy has been prepared in the context of the Council's Long Term Financial Planning Framework (LTFFP) agreed by Council in September 2023 ([Report 241/23](#) refers).
- 4.2 Significant funding gaps and large 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 continued impact of the 2023 storms endured across Angus, historical rates of inflation and a challenging outlook for the public finances generally over the medium term, the Council's budget and financial situation continues to be one of concern as expected in March 2024 when the 2024/25 budget was set.
- 4.3 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.

5. MAIN FEATURES OF THE PROPOSED MEDIUM TERM BUDGET STRATEGY

- 5.1 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 (2025/26 to 2027/28)
 - Options and Plans for Bridging the Projected Funding Gap
 - Capital Budget Financial Projections (2025/26 to 2026/27)
 - Conclusions

6. PROPOSALS

REVENUE BUDGET FINANCIAL PROJECTIONS 2025/26 TO 2027/28

- 6.1 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.
- 6.2 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. The Council must ensure that its expenditure and income are equal so that a balanced budget can be set each year – that is a legal requirement. The projections therefore assess level of expenditure and income for the Council over the next 3 financial years. The projected funding gaps are the excess of expenditure over income that is expected to arise if no action is taken – options to reduce expenditure and increase income will therefore need to be considered to close the projected funding gaps set out in this report.

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)

| | 2025/26 £million | 2026/27 £million | 2027/28 £million | 3 Year Total £million |
|--|---------------------|---------------------|---------------------|-----------------------------|
| Funding shortfall | 9.506 | 7.239 | 7.293 | 24.038 |
| % age Level of Savings Needed | 3.2% | 2.4% | 2.5% | 8.1% |

Table 1b – Estimated Funding Gap (Optimistic View)

| | 2025/26 £million | 2026/27 £million | 2027/28 £million | 3 Year Total £million |
|--|---------------------|---------------------|---------------------|-----------------------------|
| Funding shortfall | 6.592 | 7.123 | 4.551 | 18.266 |
| % age Level of Savings Needed | 2.2% | 2.4% | 1.5% | 6.1% |

Table 1c – Estimated Funding Gap (Pessimistic View)

| | 2025/26 £million | 2026/27 £million | 2027/28 £million | 3 Year Total £million |
|--|---------------------|---------------------|---------------------|-----------------------------|
| Funding shortfall | 10.471 | 11.108 | 11.180 | 32.760 |
| % age Level of Savings Needed | 3.5% | 3.7% | 3.8% | 11.0% |

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.

- 6.3 The Scottish Government did not publish a Medium Term Financial Strategy this year, due to the timing of the general election. All Scotland Budget announcements covering financial year 2025/26 were made on 4 December 2024 but the position beyond that is uncertain so officers have made assumptions about future grant allocations based on prior experience.

6.4 Movement in 2025/26 Projections

The projected baseline funding gap reported for 2025/26 in [Report 353/23](#) in December 2023 was £14.208 million. It will be noted from Table 1a above that the projected funding gap for 2025/26 is now £9.506 million, a large favourable decrease of £4.702 million, mainly due to an estimated increase in grant with no commitments the Council now expects to receive from the Scottish Government of £5.5 million.

6.5 Comparison of Projected and Actual Funding Gap for 2024/25 Financial Year

Table 1d below sets out the projected versus actual position of the funding gap for 2024/25. From the table it can be seen that the projected funding gap of £20.797 million per the MTBS [Report 353/23](#) in December 2023 moved to an actual funding gap of £15.634 million per [Finance & Change Plan 2024-27](#) approved at Special Angus Council on 29 February 2024. This was a decrease to the projected funding gap of £5.163 million.

Table 1 d – Comparison of actual and projected funding gap 2024/25

| Committee Report | Funding Gap 2024/25 £million |
|--|---|
| MTBS report 353/23 – December 2023 | 20.797 |
| Provisional Revenue & Capital Budget – Finance & Change Plan 2024-27 (approved 29 February 2024) | 15.634 |
| 2024/25 Funding Gap Decrease at Council Tax Setting Meeting | (5.163) |

6.6 Funding Gap Causes – historic and future

The Council's budget remains under severe strain through the combined effect of the following:-

- a. Historic real terms reductions in government grant in previous years for core and existing services (i.e. after deducting any new funding for new duties and responsibilities placed upon Councils);
 - b. Rising costs due to previous years' unprecedented high inflation, which is continuing to affect 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 as a temporary solution each year.
- 6.7 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.
- 6.8 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.
- 6.9 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 including energy costs in recent years that continue to present financial challenges. 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.
- 6.10 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.
- 6.11 Table 1e below sets out the main areas that make up the bulk of 2025/26 projected funding gap of £9.506 million shown in the base projection scenario Table 1a. It will be noted that the expected rise in uncommitted government grant partially offsets the funding gap.

Table 1e – Main Influences On 2025/26 Base Scenario Funding Gap

| Budget Area | £million |
|--|--------------|
| Assumed Cost of Pay Inflation including pay increments | 6.468 |
| School Transport – contractual inflation & increase in contract prices | 0.483 |
| Additional Support Needs – Increase in Demand | 0.330 |
| Third Party Costs – contractual inflation | 1.682 |
| Contractual Inflation on PPP Contracts | 0.258 |
| External Fostering – based on rising demand | 0.880 |
| Full Year Effect of New Residential Home – Childrens Services | 0.459 |
| Asset Building Maintenance | 0.556 |
| Reduction in Investment Income from Cash Balances | 1.300 |
| General Fund Reserves used as one off funding in 2024/25 | 3.249 |
| Assumed Increase in Uncommitted Government Grant Income | (5.224) |
| Projected Reduction in Change Programme Savings 2024/25 | 0.520 |
| Additional SG Grant for 2024/25 used only for one-offs in 2024/25 | (1.478) |
| Total | 9.483 |

- 6.12 The combined effect of reducing income and rising costs creates the projected funding gaps described in this report. 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 taxes and charges will all be necessary to help pay for the rising costs elsewhere in the budget.

6.13 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 and increases in Council Taxes and other fees and charges. 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 standard of services provided by the Council.

- 6.14 At this stage, savings options in the Council's Change Programme of up to £6.239 million have been identified for bridging the funding gap in financial years 2025/26 and 2026/27. A new "Year 3" covering financial year 2027/28 has still to be added to the Change Programme at this stage. Clearly this is much less than 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.

6.15 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.

6.16 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.

REVENUE BUDGET FINANCIAL PROJECTIONS 2025/26 TO 2027/28

- 6.17 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, based on recent Scottish Government budget announcements, government grant for existing service provision will increase in 2025/26 by approximately 2% and then remain static in cash terms over the 2 remaining financial years, then that along with the projected impact of pay and general inflation alongside increased demand will create a funding gap (£24 million) which the Council is unlikely to be able to close without Council Tax increases being considered in to ensure the Council can continue to fulfil its existing statutory duties.
- 6.18 By the end of the current financial year, the Council will have removed around £97 million (29.3%) 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 continual service redesign, cuts to staffing and other spending is simply not sustainable on an ongoing basis.
- 6.19 If the £24 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 strategic use of reserves and an estimate of £15 million for this would be reasonable leaving a remaining gap of £9 million. That remaining gap would still require budget savings to that value, in addition to the £97 million already saved, giving a cumulative total of £106 million over a 15 year period. Cumulative savings of £106 million represents just over 30% of the Council's current net revenue budget. The direct impact of this change in the funding available to deliver services has taken place in the context of continued expansion of the Council's statutory duties and powers with the overall impact on core service provision being even greater as a result.
- 6.20 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 increase every year as has been announced for

2025/26 or at least in line with inflation for years 2 and 3 of this MTBS. The Verity House Agreement and associated Fiscal Framework may deliver a better grant settlement than has been assumed in the later 2 years of this report. However, if the budget position being projected is what happens in practice over the next 3 years, I must advise members that major challenges will remain to make further savings on the scale required whilst continuing to fulfil all of the Council's many statutory duties over that the end of that 3 year period.

- 6.21 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 whilst expectations regarding the availability and standards of service remain high.

- 6.22 The 2025/26 grant announcements by the Scottish Government go some way towards addressing the issues within the funding system but those need to be sustained on an ongoing basis into future years if the local government as a whole is to remain financially sustainable in the medium to long term.
- 6.23 The MTBS should leave Councillors and members of the public in no doubt that although somewhat easing in 2025/26 many challenges remain in the years ahead. Significant improvements to the funding settlements received by Local Government compared to recent years would be necessary on an ongoing basis 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. Although increased funding from the Scottish Government has been recently announced for 2025/26 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. RISK MANAGEMENT

- 8.1 The following risks from the Corporate Risk Register are relevant to this report:

- Financial Sustainability
- Transforming for the Future

9. ENVIRONMENTAL IMPLICATIONS

- 9.1 There are no direct environmental implications arising from the recommendations of this report.

10. EQUALITY IMPACT ASSESSMENT, HUMAN RIGHTS AND FAIRER SCOTLAND DUTY

- 10.1 An equality Impact Assessment is not required as the report has no direct impact on people and it is reflective, setting out budget funding gap projections over 3 financial years.

11. CHILDRENS RIGHTS AND WELLBEING IMPACT ASSESSMENT

- 11.1 A Childrens Rights and Wellbeing Impact Assessment has been undertaken and a full assessment is not required as the “General Principles” do not apply to this proposal.

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.

REPORT AUTHOR: Gillian Woodcock, Manager (Finance Services)

EMAIL DETAILS: Finance@angus.gov.uk

List of Appendices:

Appendix A – Medium Term Budget Strategy 2025/26 – 2027/28

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