

REPORT TO ABERDEENSHIRE COUNCIL - 18th NOVEMBER 2021

MEDIUM TERM FINANCIAL STRATEGY

1 Reason for Report / Summary

- 1.1 This report provides Council with an update on the progress with the Medium Term Financial Strategy (MTFS) 2022/23 to 2026/27 and Budget setting process for 2022/23.

2 Recommendations

The Council is recommended to:

- 1. Note the 2022/23 estimated out of balance position**
- 2. Note the next steps in the 2022/23 budget process and revision to the Medium Term Financial Strategy**
- 3. Agree that an alternative date for the setting of the Revenue, Capital and Carbon budgets be identified in the event of the Scottish Government concluding the 2022/23 budget process after 10 February 2022**

3 Purpose and Decision-Making Route

- 3.1 The MTFS is a five year strategy which sets out the Council's commitment to provide services that meet the needs of the residents of Aberdeenshire and that represent good value for money and allows for the identification of any funding gap over the five year period.
- 3.2 The Council's Plan can only be delivered through a sound understanding of the organisation's longer-term financial sustainability which enables decisions to be made that balance the resource implications of the Council's policies against financial constraints. This is the primary purpose of the Medium Term Financial Strategy.
- 3.3 The MTFS also provides the financial framework for the annual budget.

4 Discussion

- 4.1 The purpose of the Medium-Term Financial Strategy (MTFS) is to ensure that the available resources and requirements of Aberdeenshire Council are identified and the influences which impact on the availability and use of these resources are considered.
- 4.2 The priorities of the Council are detailed in the Council Plan and provide the direction as to how the resources of the Council are utilised.
- 4.3 The Medium Term Financial Strategy is a rolling five year strategy which informs the annual budget setting process. The MTFS considered revenue and capital budget requirements as well as the use of balance sheet resources such as reserves and provisions.
- 4.4 The Council has a legal requirement to set a balanced budget each year.

- 4.5 The key objectives of the MTFS are as follows:
- To ensure that effective financial planning and management, contributes to the Council achieving the priorities in the Council Plan
 - To ensure that the Council is financially resilient, and sustainable for the future
 - To maximise the income from Council Tax and chargeable services (through the Corporate Charging Framework) to support the Council's priorities
 - To estimate the expenditure requirements to ensure value for money is achieved and resources are utilised where outcomes are measurable and have real impact.
- 4.6 Over the five years to 2025/26, the MTFS approved by Council on 26th June 2021, reflected a balanced position for 21/22 with an out of balance position for the years 22/23 to 25/26 amounting to £45.928m.
- 4.7 The reported out of balance position for 22/23 was £4.860m.
- 4.8 The MTFS now requires to be refreshed and 22/23 budget updated to reflect additional spending need and the resource forecasting requirements by Directorates based on the latest information available and taking cognisance of the budgetary pressures that have been identified in the current financial year. It will also extend the MTFS into 2026/27 so there is clarity on the out of balance position over the next 5 years.
- 4.9 The impact of COVID-19 upon the Council's financial position in both 2020/21 and 2021/22 has been significant and whilst it is assumed that there will not be a requirement for further lockdowns it is recognised that the impact of COVID will continue to impact upon the Council over the next financial year 2022/23 (e.g., adaptations to services, income for chargeable services, staff sickness absences).
- 4.10 Following the UK Government's Budget announcements on 27th October 2021, the Scottish Government budget announcements are expected on the 9th December 2021. The draft settlement letter is currently timetabled to be received on the 20th December 2021.
- 4.11 The economic situation remains hugely challenging, with the Council facing rising demand for services as well as inflationary pressures because of supply and staffing shortages. The direct and indirect impacts of all these factors, which will impact on Council partners and contractors are both unknown and highly volatile at present. Whilst interest rates remained unchanged at the last Bank of England review, an interest rate increase is anticipated by the end of the Financial Year which will require to be considered when developing the Treasury Management – Borrowing and Investment Strategies.

2022/23 Budget and MTFs revision

- 4.12 The anticipated out of balance starting position for 2022/23 was previously **£4.860m**. This included the assumption that £1.931m of additional funding received from Scottish Government in 2021/22 would be baselined in 2022/23. However, it has subsequently been confirmed that this will not be the case and this funding is one-off funding for 2021/22 only. Consequently, the starting position has increased from £4.860m to **£6.791m** out of balance.
- 4.13 There is a need to plan for pay increases which will include increases to the on costs and uplifts in rates of pay. The estimated cost pressure for 22/23 is around **£4.2m**. This may be subject to change once certainty on the current pay settlement known.
- 4.14 Also included in the 22/23 starting position is a general inflationary assumption across all other discretionary expenditure budgets of 1%, but with inflation expected to increase to around 4% for this financial year, it would therefore not be unrealistic to see further inflation increases of around **£12.0m** across non staffing budgets.
- 4.15 Pressures have been identified in the current financial year (21/22), with the current out of balance position a forecast of over £6m over budget. Strategic Leadership Team are actively taking steps to seeking to manage resources in year to mitigate pressures and reduce this out of balance position. Whilst this approach brings about a solution for 21/22, work continues to identify permanent solutions to resolve for 22/23. The impact of these recurring pressures in 22/23 are currently estimated to be around **£9.0m**.
- 4.16 The local impact of National Policies (e.g., removal of core curricular fees) is anticipated to result in a budgetary pressure of around **£1.0m** in 22/23. Additional funding for these may be received in settlement, the pressure is however highlighted for information.
- 4.17 The Local Government Elections take place in 22/23 and the anticipated costs which were not reflected in the 22/23 starting position are expected to be around **£0.500m**
- 4.18 The Council continues to assume a flat cash position for Grant and Business Rates funding for 22/23.
- 4.19 All Directorates are now in the process of quantifying their resourcing requirements and expected income levels and identifying any associated cost pressures. This will allow for the refinement of the high level budgetary assumptions shown in the paragraphs above which indicated a possible out of balance position more than **£33m** and will provide clarity on the projected gap for inclusion in the revised MTFs over the five year period. It must be emphasised this remains work in progress with mitigations and assumptions continuing to be assessed.
- 4.20 The revision of the MTFs will also consider the expected Council Tax base for the next five years, the borrowing requirements of the Capital Plan, and will review the reserves available to the Council and their intended uses.

- 4.21 To address the out of balance position for 22/23, and expected financial challenges in future years, work began earlier in the year to develop savings options with a voluntary severance scheme open to staff designed to reduce headcount in a managed and considered way. Services have also been required to identify mitigations to offset their reported pressures.
- 4.22 More recently, an ambitious engagement programme has been launched amongst staff to identify savings which will support a multi-year budget. The programme, entitled Every Voice Counts, includes a savings suggestion scheme, workshops with chief officers and programmes for change spanning every directorate.

Next Steps

- 4.23 Once the projected gap is identified and the impact of the Settlement has been determined the Strategic Leadership team will provide options for consideration by Council to bring about a balanced position for 22/23.
- 4.24 The Council's provisional date for budget setting is 10th February 2022. While the Scottish Government's budget is expected to be finalised in January/ February a final date has yet to be announced. Should this date be after the Council's provisional date, it is suggested that the HRA Budget and the setting of the Council's Council Tax for 22/23 be considered in February and an additional date identified following the SG Budget announcement to allow Council to consider the Revenue, Capital, and Carbon Budgets.

5 Council Priorities, Implications and Risk

- 5.1 This report helps deliver all six of the Council's Strategic Priorities and the key principle that underpins them of responsible financial planning.
- 5.2 The table below shows whether risks and implications apply if the recommendation(s) is(are) agreed.

Subject	Yes	No	N/A
Financial	X		
Staffing	X		
Equalities & Fairer Duty Scotland		X	
Children and Young People's Rights and Wellbeing		X	
Climate Change and Sustainability		X	
Health and Wellbeing		X	
Town Centre First		X	

- 5.3 An integrated Impact Assessment is not required because all the elements of the Medium Term Financial Strategy referenced have their own integrated Impact Assessments where appropriate.
- 5.4 There are potentially significant staffing and financial implications arising from this report if the potential savings options are implemented. These will be subject to agreed consultation and governance.
- 5.6 The following Risks have been identified as relevant to this matter on a Corporate Level: Budget Pressures and on a Strategic Level: Balancing the Books ([Directorate Risk Registers](#)). Actions being taken to mitigate these risks are set out in the report.

6 Scheme of Governance

- 6.1 The Monitoring Officer within Business Services has been consulted in the preparation of this report and their comments are incorporated within the report and is satisfied that the report complies with the Scheme of Governance and relevant legislation.
- 6.2 The Council can consider and take a decision on this item in terms of the general provisions conferred by the List of Committee Powers in Part 2A of the Scheme of Governance. A decision on this item is linked to setting the Council Budgets under Section A.8.1 of the List of Committee Powers in Part 2A of the Scheme of Governance.

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