REPORT TO: **MORAY COUNCIL ON 28 JUNE 2023**

SUBJECT: **SHORT TO MEDIUM TERM FINANCIAL PLANNING**

BY: **DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)**

1. REASON FOR REPORT

1.1 To consider the impact of the out-turn for 2022/23 and further budget savings and budget pressures.

1.2 This report is submitted to the Council in terms of the Council's Administrative Scheme section (III) (A) (2) relating to considering Capital and Revenue budgets and long term financial plans.

2. RECOMMENDATION

2.1 It is recommended that the Council notes:

(i) the gravity of the financial situation and uncertainty regarding key costs;
(ii) further potential and actual savings totalling £1.85 million;
(iii) emerging budget pressures and revisions to approved budget pressures totalling £1.104 million;
(iv) the impact of the unaudited results for 2022/23, which is that the balance on Covid reserves reserves is £1.291 million higher than anticipated.

3. BACKGROUND

3.1 The Council’s revenue and capital budgets for 2023/24 were approved at a meeting of Moray Council on 1 March 2023 (paragraph x of the Minute refers). A budget shortfall in 2023/24 of £15.2 million was planned to be funded from reserves and a savings target of £19 million for 2024/25 projected. At the time this budget was set, this level of use of reserves was recognised as a high risk strategy. The planned reduction in reserves represents a reduction of 40% of the Council’s net useable reserves and the savings target for 2024/25 represents a saving of 5.7% of the total net General Services budget. However, over half of the budget is currently protected by the conditions of the local government settlement – in particular adult social care and teaching and pupil support staff numbers – and unprotected areas will therefore require to make the savings required, at a considerably higher impact on those areas. Whilst discussions are ongoing via Cosla regarding a “New Deal” for local government and a new Fiscal Framework, it is currently unclear what impact if any this will have on wider conditionality. In this context, the difficulty of achieving such significant savings cannot be over-emphasised and the Council is in an extremely grave financial position, compounded by uncertainty regarding key drivers of spend, such as pay awards for 2023/24, currently under negotiation.

3.2 In considering the current position, it’s important to recognise how this developed. For many years the Council has had an underlying deficit, relying on funding from reserves to balance the budget. The cumulation of a considerable number of years effort to reduce core spend resulted in a budget for 2019/20 which removed the underlying deficit. However, during the response to the pandemic, in a constantly moving environment, the Council in common with most organisations was not able to both respond to the pandemic and continue to make significant changes to its operating model to achieve savings. Scottish Government provided increased funding during 2020/21, with much funding announced at the year end. There was a stated assumption from Scottish Government that this funding would be used over 2021/22 and beyond to balance local authority budgets and the Council has done so by use of covid reserves, this earmarked reserve being where unspent covid funding is held.

3.3 However, since 2019/20 budget pressures have continued to grow and inflation has increased with a knock-on effect on costs and with little identified by way of significant savings in the period 2021 to 2023, the underlying deficit has grown. Significant savings are now needed as a matter of urgency.

3.4 Council on 8 March 2023 (paragraph x of the Minute refers) approved £49,000 recurring savings for consultation. These are included in the updated budget overview at **APPENDIX 1** to this report in other savings proposed.

3.5 Further amendments since the budget was approved are also included and these are itemised below.

4. BUDGET SAVINGS, BUDGET PRESSURES 2023/24 TO 2025/26 AND OUTTURN FOR 2022/23

4.1 Council on 10 August 2022 (paragraph 16 of the Minute refers) approved a hierarchical approach to budget savings, with preference given to transformation of services, thereafter to income generation and finally to service reduction / cessation, recognising that given the scale of savings required there would be a requirement to reduce service provision.

4.2 The Council’s Transformation Programme is the Improvement and Modernisation Programme, which is the subject of regular reports to the Corporate Committee. The latest report was on 25 April 2023 (paragraph x of the Minute refers). Work is on-going to further develop this with a number of transformation projects designed to deliver savings in the medium to long term at the concept stage and details will be reported when these are at project mandate stage and delivery resources clarified. The Council has an ear-marked reserve of just under £4m (adjusted at outturn) for funding Transformation projects.

Income generation

4.3 When the NESS Energy from Waste plant is operative, the Council will be entitled to a share of the income from the sale of electricity. This will be reflected in a reduced gate fee for the waste taken to the site. A very conservative estimate of income is now included in the schedule of savings for 2023/24 and 2024/25, based on the Base Case included in the business plan for the project. £150,000 is included for 2023/24, increasing to a full year effect of £300,000 in 2024/25. This figure will be refined when the plant is operative.

Further service savings

4.4 Operational budgets for travel and subsistence, postage and stationery have been reviewed with a view to trimming these back to reflect reduced expenditure from travel to meetings outwith Moray and more paperless ways of working. A total of £29,000 has been identified across Financial Services, HR, ICT and OD, Housing and Property Services, Education Resources and Communities, Children's Services and CMT. A further £50,000 saving on travel associated with hybrid working is also recognised which forms part of the Smarter Working financial case .

4.5 A saving of £27,000 from reduction in discretionary non domestic rates relief was approved by Council on 8 March 2023 (paragraph x of the Minute refers) and that is included in the attached summary. The savings totalling £1,480,000 recommended as arising from the review of the out-turn for 2022/23 are the subject of another report to this meeting of Council and have also been provisionally included in the summary.

Budget pressures

4.6 Budget pressures arise in two ways: most budget pressures come from sources external to the Council or from factors which influence the demand for services. Examples would be change in legislation and demographic pressures such as increasing school rolls. The Council cannot directly control this source of pressures, which covers the majority of spend. The second source of budget pressures is Council decisions which increase planned expenditure. Budget pressures approved when the budget for 2023/24 was set are kept under review and the emergence of new budget pressures will also be reflected in the financial planning process.

4.7 The following budget pressures have been removed from the summary at **APPENDIX 1**: economic recovery plan £316,000, as this relates to items which have been reported to Economic Development and Infrastructure Services Committee as no longer planned for delivery; free school meals in the Easter holidays £80,000, as this is now being funded by Scottish Government.

4.8 A budget pressure of £30,000 was included in 2023/24 for the introduction of the Deposit Return Scheme. This has been moved into future years and will be reviewed again when details of the scheme have been finalised.

4.9 An emerging budget pressure relating to Additional Support Needs is the subject of a further report to this meeting of Council. A provisional amount of £1.5 million is included in the summary at **APPENDIX 1**.

4.10 The net result of the above is total additional savings of £1.850 million, partially offset by net additional budget pressures of £1.104 million

4.11 Savings required across 2024/25 and 2025/26 are now projected as totalling £20.8 million, with £1.8 million identified, leaving a balance of £19 million to find, £18.2m in 2024/25 and £0.8m in 2025/26.

Financial Planning
Short to Medium Term Financial Plan

4.12 A phased approach to identifying savings has been pursued, with Phase 1 incorporated into the 2023/24 budget-setting process / largely contemporaneous with that and including a review of services with the Administration Group and Political Group Leaders to identify savings opportunities from a political perspective. Work is underway to clarify the vision for a future council that can operate within available resources rather than only via an ongoing deficit which constantly needs offset. This "Future Council" modelling is extremely complex, with multiple interdependencies and risks which need to be fully understood. Mandates for the future council projects to deliver that developing vision require to be scoped including resources for delivery. Meanwhile, and in parallel, savings proposals achievable through that transformative remodelling must also be prepared and considered for risks and interdependencies. The complexity of this work and significant resourcing challenges across CMT/SMT has meant that Phases 2 and 3 will in effect require to be combined and the timings and processes set out in the routemap revised accordingly. However, it is intended that potential savings will be taken through political review processes after the recess, with a further update in due course.

4.13 In reviewing the timeline and approach towards budget setting in 24/25 and beyond, a number of considerations will be key, including:

- The need to plan for:
  - Public Communications with the best approach to this informed by the nature and timing o proposals before Council
  - Workforce consultation and engagement
  - Trade Union consultation and engagement
  - Investigation of equalities, climate and other considerations
- The impact if any of the New Deal for local government
- Providing time for scoping of savings options and transformation projects to bridge the gap over two or more years which are future council focussed, supporting anticipated operating models from 2025/26 and beyond rather than constraining these
- The balance to be struck between savings (including income generation), council tax rates and use of reserves

Medium to Long Term

4.14 The Council's Medium to Long Term Financial Plan requires to be reviewed to reflect current circumstances, including the impact of higher levels of inflation, national initiatives which will impact on the Council, and the latest information on demographics. This will be reported to Council in September but requires further development of the future council approach and savings options referred to above.

Impact of 2022/23 out-turn

4.15 This is the subject of a further report to this meeting of Council. The balance on the covid reserve – effectively the working reserve for budget purposes – is £3.449 million higher than forecast when quarter three forecast results were reported to Council. However, £2.158 million of that additional balance is either ring-fenced or otherwise committed. The summary at **APPENDIX 1** includes updated reserves balances and assumes the £2.158 million has been transferred to Other ear-marked reserves.

4.16 The balance on the covid reserve is available to temporarily cover any budget gap remaining once savings are approved. However, at £7.6 million this is clearly short of the savings target. There are other ear-marked reserves which could be re-purposed, however, these are likely to be needed for the purposes for which they were set up and only provide cover for one year, thereby increasing the savings required the following year. As a result, the main focus must be on savings and council tax rates.

4.17 At the year end the Council had net £744,000 provisions held centrally. This reflected an overspend in allocations for pay awards, slippage in projects, some provisions not required and additional savings. However, the overspend on pay awards is £2 million less than reflected in this figure, as funding of £2 million was received through additional capital grant. Ongoing additional savings have been verified. The extent to which provisions not drawn down are required for slippage in new duties, with funding being announced throughout the year and too late to spend in-year in many instances, is being verified. When the detail of this has been established it will be reported to Council with a view to reducing the base budget carried forward.

5. <u>SUMMARY OF IMPLICATIONS</u>

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Financial Planning is integral to the Council's overall planning processes and allows the Council to direct resources to its agreed priorities which include financial sustainability.

(b) Policy and Legal

The Council is required by statute to set a balanced budget before the start of the financial year. The requirement is set out in the Local Government Finance Act 1992 (section 93).

(c) Financial implications

The Council has an underlying structural deficit which will be met from reserves in 2023/24 and a continued and heightened budget gap is forecast for 2024/25 with further savings required in 2025/26.

Early action to tackle the projected funding gap for 2024/25 and 2025/26 is therefore urgently required. There are considerable uncertainties regarding a number of potential budget pressures. To achieve financial stability and sustainability the creation of further non-essential budget pressures must be avoided as inevitably reserves will be called upon to some extent to help balance the budget in 2024/25.

(d) Risk Implications

The forecast deficits for 2024/25 and 2025/26 represent a significant risk to the Council. There is also a risk that the deficits are understated. The main areas of risk are:

Regarding the levels of savings – these represent a high proportion of the Council's budget and not all budgeted spend is under the Council's control.

Regarding the projected levels of deficit -

- Pay awards are unknown at present and the impact of pay awards is significant
- The impact of continuing inflation on procured goods and services may be greater than forecast
- Higher interest rates
- Approved savings might not achieve target
- There may be emerging budget pressures from changing circumstances not captured in the current projections

(e) Staffing Implications

No staffing implications arise directly from this report.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

Any savings proposal with an equalities impact will be subject to an Equalities Impact Assessment (EIA). No EIAs are required for any of the savings incorporated in this report.

(h) Climate Change and Biodiversity Impacts

There are no implications for biodiversity arising directly from this report.

(i) Consultations

CMT and Heads of Service have been fully involved in the preparation of proposed savings and in regular planning meetings to discuss the budget, including budget review sessions with elected members and a recent workshop.

6. CONCLUSION

6.1 There are considerable uncertainties regarding the Council's budgetary position in 2023/24 and beyond, however the underlying position is a substantial deficit, funded by use of ear-marked reserves to balance and that is not sustainable.

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Background Papers:
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