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**REPORT TO: SPECIAL MORAY COUNCIL ON 24 JANUARY 2024**

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

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

**1. REASON FOR REPORT**

1.1 To consider the revised budget and estimated actual for 2023/24, the impact of the draft local government settlement and consequent revisions to the estimated budget position for 2024/25 and 2025/26.

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 considers and notes:**

- (i) the revised budget and estimated actual for 2023/24 and current estimates for 2024/25 and 2025/26; and**
- (ii) that the structural deficit in 2024/25 is now estimated to be £13.4 million and the Council still requires to make very significant levels of savings in a short timeframe.**

**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 5 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 – creating a structural deficit - was recognised as a high risk strategy.

3.2 Council on 8 March 2023 (paragraph 14 of the Minute refers) approved £49,000 recurring savings for consultation and further adjustments following finalisation of the unaudited accounts were approved by Council on 28 June. Council on 27 September 2023 (paragraph 9 of the Minute refers) noted the impact of £2.007 million funding for the 2022/23 pay award and a further £2.2 million for the teachers' 2022/23 pay award.

- 3.3 Council on 25 October 2023 noted adjustments to income (full year effect £62,000) to reflect charges approved by service committees and approved savings totalling £946,000 and a further £2,003,000 subject to consultation.
- 3.4 Council on 6 December 2023 noted the estimated out-turn for the year of an anticipated underspend in 2023/24 of £439,000 and a budget gap across 2024/25 and 2025/26 of £16 million, following adjustment for the savings approved at that meeting and recognition of a budget pressure estimated at £5 million anticipated to arise from the expected overspend on core services of Moray Integration Joint Board (MIJB).
- 3.5 The impact of the teachers' and SJC pay awards has been calculated and the impact reflected in the 2023/24 estimated expenditure. The impact was expenditure of £7.3 million above that allowed for in the provision of inflation. Funding for the pay awards has been agreed at national level but not all of this funding has been confirmed at local authority allocation level. The funding package is complex, and includes elements which local authorities are asked to fund from reserves in 2023/24 which will be refunded by Scottish Government in 2024/25. Including unconfirmed elements of funding it is estimated that the Council will receive additional funding in 2023/24 of £6.116 million, with a further £0.612 million across 2024/25 and 2026/27. Overall this is a shortfall of £572,000, of which £170,000 has already been recognised as a budget pressure, following agreement that councils would meet £10 million of the additional costs of the pay awards. The additional shortfall arises from the calculation of funding being done on an average percentage increase, whereas the actual increase for each local authority will depend on the individual staffing structures of the authority, with proportionately higher costs for those local authorities with a higher proportion than average of staff on lower than average salaries.
- 3.6 Funding for the expansion of Early Learning and Childcare was made through specific grant – this has now been baselined in General Revenue Grant and that adjustment is reflected in **APPENDIX 1** to this report.
- 3.7 The Short to Medium Term Financial Strategy approved by Council on 27 September 2023 set out the following strategy to balance the 2024/25 budget:

Action	Status
Energy savings measures	None incorporated – in development and will be added when available
IMP 3 savings	Estimate included from last review
Other small scale transformation	None identified
Council Tax increase above 3%	SG funding for Council Tax freeze makes this option impracticable
Council Tax increased ratios Bands E to H	SG decision not to proceed with this
Council Tax on second homes	Subject of report to Corporate Committee 30 January 2024
General increase in charges	Default of 5.75% approved and detail is subject of a separate report to this

Action	Status
	meeting of Council – impact to be estimated and added to savings
Savings Max	First tranche taken, balance to be considered and APPENDIX 2 is included below as option at this stage
Emergency temporary measures	Not recommended
Review of Capital Plan	Subject of a separate report to this meeting of Council – budget will thereafter be adjusted.

#### **4. EMERGING ISSUES 2023/24 TO 2025/26**

##### **Budget Pressures**

4.1 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.

4.2 A new budget pressure has been recognised in 2023/34 - £50,000 for increased cost of school transportation. The budget pressure of £1.515 million previously advised for teachers' pension contributions has been included in **APPENDIX 1**, but offset by additional funding from Scottish Government. This funding is not confirmed, but Scottish Government expect Barnett consequential in respect of the teachers' pension scheme and COSLA is pressing for this to be passed to local authorities. Unbudgeted pay awards per paragraph 3.5 are also included.

##### **Savings**

4.3 Savings from the North East of Scotland Pension Fund contributions as previously notified are now included in **APPENDIX 1**.

4.4 Closure of Elgin Community Centre was approved by Council on 23 June 2023 from 31 March 2024. The financial impact of this has now been calculated in detail, taking into account plans for use of the Centre during redevelopment of Elgin Town Hall and savings of £163,000 for 2024/25 are included in **APPENDIX 1**, with a further £73,000 in 2025/26.

4.5 New burdens arising from the settlement letter are included for 2023/24: standard recommended allowances for Kinship and Foster Carers £262,000, temporary accommodation costs £29,000 and Educational Psychologists £9,000. The first of these was reported to Council on 12 December, and the actual cost of implementation estimated at £134,000. The difference of £128,000 is therefore included as a saving.

## Funding

- 4.6 The draft settlement for 2024/25 has been received. A number of elements of funding remain undistributed at this stage. The settlement has been analysed and an estimate of a reduction in core budget of £1.117 million made. This fits with COSLA's estimate of reduction at national level.
- 4.7 Deputy First Minister wrote to the COSLA President on 19 December 2023, setting out the conditions of the settlement. These include a stipulation that additional funding for free personal and nursing care and adult social pay in commissioned services is passed in full to Integration Joint Boards and the establishment of a new joint Education Assurance Board and the assurance framework sought by the Cabinet Secretary for Education and Skills being in place; commitment to exploring a national indicative rate / range of rates for Early Learning and Childcare partner providers. In addition, funding of £144 million is set aside, conditional on a council tax freeze. An allocation of funding at local authority level has been provided by Scottish Government and Moray's share is £2.485 million. This is indicated as equivalent to a 5% rise, adjusted for Council Tax Reduction. Using that basis of calculation the Council would expect a 5% increase to generate additional income of £2.499 million, a marginal difference. This is a significant sum to be foregone if the Council were to decide to increase council tax, and for this update it has been assumed that the council will not exercise that option, as an increase of over 10% would be required to generate the same level of income as the likely level of grant funding. This is reflected in the updated Budget on a Page included as **APPENDIX 2** to this report. The Income Strategy approved by Council on 12 December 2023 (paragraph 10 of the Minute refers) includes a strategic approach to recovering the baseline income potentially lost by a council tax freeze and that has been included in the indicative budget for 2025/26..

## 5 **FINANCIAL PLANNING**

- 5.1 The overall movement in the Council's projected position from pay award, savings and funding can be summarised as below:

	2023/24 £m	2024/25 £m
Additional unfunded pay award	0.4	0.4
School transport	0.05	0.05
Pension contributions		(1.91)
Elgin community centre		(0.163)
Kinship and foster carer allowances		(0.128)
Reduction in core funding		1.117
Total	0.45	(0.634)

- 5.2 The net result is an improvement in the Council's anticipated position for 2024/25 and a reduction in the funding gap of £0.634 million.
- 5.3 The following issues in terms of financial planning require to be addressed: identifying further savings; updated provision for inflation, particularly pay awards, following this year's increase; the impact of the revised approach proposed to the capital plan, which is the subject of a further report to this

meeting; review of previously approved budget pressures and other central provisions.

### **Savings**

- 5.4 Savings proposed in Appendix 2 of the Short to Medium Term Financial Planning report made to Council on 25 October – the residual officer green and amber savings – remain options available to the council and full details are accessible via the links in the background documents to this report.
- 5.5 The engagement on leisure and library services has now been concluded and the results are under review. Any proposals to move to Stage 2 consultations will be brought to a future meeting of the Council but this will be after 28 February.
- 5.6 Officers have been scrutinising operational budgets to identify small pockets of underspend which can be taken as savings without impacting on service delivery. These will be included in budget proposals on 28 February and an indicative level of savings is included in **APPENDIX 2**.
- 5.7 Potentially income generative proposals relating to Non Domestic Rates and Council Tax on second homes will be reported to Corporate Committee on 30 January 2024. Again, indicative amounts are included in **APPENDIX 2**.

### **Budget pressures and other provisions**

- 5.8 Indicative provision for inflationary increases in 2024/25 was made on the basis of 2% inflation when the budget for 2023/24 was approved on 1 March 2023. At that time that was the forecast level of inflation used by most commentators. Not only is that below current levels of inflation, the cost base used for both pay and contract prices has been increased by inflationary uplifts in 2023/24 which were considerable higher than allowed for in the budget. An appropriate level of provision is being recalculated and this will be included in the draft budget for 2024/25.
- 5.9 Other pressures and provisions will be scrutinised in the light of changed circumstances. For example, school rolls have fallen against those predicted in October 2022 and budget pressures will be revised accordingly.

## **6 RISKS**

- 6.1 The Short to Medium Term Financial Strategy specifically identifies risk as an important component of short to medium term financial planning. The importance of considering risk is heightened as the Council's reserves are depleted, as that reduces the capacity the Council has to absorb unexpected or unplanned for costs. No new risks have been identified since the report to Council on 12 December 2023.
- 6.2 The major risks reported to Council on 25 October 2023 were of continued overspend in MIJB, Additional Support Needs, adequacy of the inflation provisions for 2024/25 and 2025/26 and the pay award for 2023/24. Since then the risk of overspend in MIJB has crystallised. The pay award has been agreed subject to consultation but the impact has yet to be assessed in detail.

6.3 The following budget risks are currently recognised. These cannot be quantified at present but a scale of potential magnitude is indicated in the budget risk table where this has been estimated.

<b>Service area</b>	<b>Budget risk</b>	<b>Scale of magnitude</b>
Cross cutting	Inflation linked contracts / Real Living Wage	
	Pay awards	Adequacy of inflation provision and additional SG funding still to be assessed.
Moray Integration Joint Board	Overspend at Q2 continues / increased	Based on current core overspend, in the region of £5m for council share
Additional Support Needs	One-off funding in 2023/24 may require to be made recurring  Growth in need	£ 2.6m one-off funding in total, including £0.4m in 2024/25
Winter weather	Anything other than a mild winter has the potential to result in overspend	£700,000 overspend in 2022/23
Legal fees for specialist work regarding appeals / claims against the Council and fees arising due to staff shortages	There is no budget for appeals / claims. Savings in staff salaries partially offset fees for work which would normally be carried out in house, but external fees are higher than staff salaries	
Interest rates	Cost of borrowing increases	The Council budgets for £6m loans interest repayments. An increase of 1% in interest rates would result in an increase of £1.5m
Debt management	Invoices not raised timeously  Payment not pursued / debt not actively managed	The Council wrote off £222,000 in 2022/23.

6.4 All of these factors mean that while the structural deficit remains and as further fluctuations in the budget gap are inevitable, progress to remove that deficit must continue with pace and urgency.

## 7. SUMMARY OF IMPLICATIONS

(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 marginally reduced budget gap is forecast for 2024/25 with further savings required in 2025/26 by which time reserves which can be drawn upon are likely to be largely depleted.

(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 -

- The impact of the pay awards and funding for that is still uncertain and may impact on future years
- The impact of continuing inflation on procured goods and services may be greater than forecast
- Higher interest rates pose a risk for capital expenditure
- Approved savings might not achieve target
- There may be emerging budget pressures from changing circumstances not captured in the current projections and the areas considered to be pertinent are listed in the report.

(e) **Staffing Implications**

Staffing implications arising directly from this report are discussed in the body of the report. Where posts are proposed to be deleted the Transform programme provides alternative employment opportunities.

(f) **Property**

There are no property implications arising directly from this report.

(g) **Equalities/Socio Economic Impact**

Any savings proposal with an equalities or socio economic impact will be subject to an Integrated Impact Assessment (IIA) when reported and changes to IAAs for three savings are accessible via Appendix 3.

**(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 series of briefings / workshops.

**8. CONCLUSION**

**8.1 There are still 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: Links to Savings Templates and IIAs Appendix 1 and 2:  
[Report to Council 25 October 2023](#) (Item 9 Appendix 2)

Reference: SPMAN-1293228629-1025