



REPORT TO: MORAY COUNCIL ON 28 FEBRUARY 2024

SUBJECT: 2024/25 BUDGET AND 2024 TO 2027 FINANCIAL PLAN

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

1. REASON FOR REPORT

- 1.1 To ask Council to set the level of Council Tax for 2024/25, to agree the Council's revenue budget for 2024/25 and to consider the Council's Financial Plan for 2024 to 2027.
- 1.2 This report is submitted to the Council in terms of the Council's Administrative Scheme section (II) (1) relating to setting the Council Tax and section (II) (22) and (23) relating to the approval of the annual estimates of capital and revenue expenditure for all services.

2. RECOMMENDATION

2.1 It is recommended that the Council approves :

- (i) A Council Tax freeze for 2024/25;**
- (ii) Provision of £9,288,000 for budget pressures as listed in APPENDIX 2;**
- (iii) Budgeted expenditure of £278,833,000 for 2024/25;**
- (iv) Indicative budgets for 2025/26 and 2026/27 as set out in APPENDIX 1;**
- (v) Funding of £83,805,000 for Moray Integration Joint Board (MIJB) as set out in paragraph 6.6;**
- (vi) Transfers from the ear-marked reserve for Council priorities of £1,000,000 into free general reserve and £1,500,000 into the ear-marked reserve for transformation of services and renaming the residual amount in the Council priorities reserve as an ear-marked reserve for workforce planning; and**
- (vii) Use of ear-marked reserves totalling £701,000 for transformation, £1,136,000 for Moray Growth Deal cash flow and of £10,225,000 from covid reserves to balance the budget.**

2.2 It is recommended that the Council notes:

- (i) The conditions placed on the Council in terms of the settlement letter from the Depute First Minister, subject to any announcements by Scottish Government;**
- (ii) Uncertainty around the impact of the transfer of £145.5 million funding for teachers to specific grant; and**
- (iii) Projected additional savings requirements of £13,521,000 in 2025/26.**

3. BACKGROUND

3.1 The Council's revenue budget for 2024/25 falls due to be considered in a difficult economic environment. A recent report by the Institute of Fiscal Studies noted that taxation is at historically high levels, and with a cross party consensus to reduce the debt-to-Gross Domestic Product ratio, options for funding public services are constrained. Globally, the economic outlook is uncertain, mainly due to geo-political events. Further to that report, the UK has reported a technical recession in the second half of 2023. Allowing for funding for UK and Scottish Government priorities, unprotected budgets (including local government) are likely to face continued real cuts in funding. Interest rates appear to have peaked but that is not certain given the range of opinion at the last meeting of the Bank of England Monetary Policy Committee. This is a difficult environment in which to make financial decisions and prudence must be the watchword.

3.2 The Local Government Settlement is for one year only but the Council is setting its 2024/25 budget in the context of longer term planning.

Strategic Approach

3.3 The Council approved a Short to Medium Term Financial Strategy on 27 September 2023, setting out plan to achieve a balanced budget for 2024/25 and 2025/26, with reliance on reserves removed by 2025/26. Following the previously agreed hierarchy of Transformation – Income generation – Savings the strategy set out three strands of activity: transformation, income max and savings max. For 2024/25 only minor savings from small scale transformation were envisaged, with greater emphasis in 2025/26 on transformation and looking to the Council for the future, linking in to the Medium to Long Term Financial Strategy. Income generation covered Council Tax, charges for services and wider opportunities to generate and maximise income. Not all the opportunities to generate additional Council Tax income being discussed at that time are available to the Council now. Savings Max was seen as identifying the maximum possible savings which could be generated by reshaping and reducing service provision and recognised as necessary given the need to make significant budget reduction in a very short time frame. A review of the Council's indicative 10 year Capital plan was also recognised as necessary.

3.4 The Council approved a Medium to Long Term Financial Strategy on 25 October 2023. The strategy identified the main cost drivers for council services and considered a range of scenarios based around variations in those cost drivers. It recognised that the financial road map for the medium to long term had to be developed with a focus on transformation. On 12 December 2023 the

Council approved a range for savings from the Savings Max portfolio and also approved an Income Strategy for implementing Income Max in the context of the Scottish Government announcement of a Council Tax freeze and withdrawal of proposals to amend the banding ratios; and also a revised Charging for Services policy. A revised capital plan was approved by Council on 28 January 2024, and the need to cap capital expenditure agreed. These together form the strategic approach taken by the Council and the background to this budget report. In addition regular reports on the financial planning process have been made throughout the year. The latest report was considered by the Council on 24 January 2024 (paragraph 9 of the Minute refers) following prior to financial circular 8/2023 (containing provisional grant details) being published on 21 December 2023. Since that report a review of the opening position and of budget pressures has been carried out in the light of quarter 3 monitoring and adjustments made to reflect the capital plan for 2024/25 approved at that meeting of Council (paragraph 11 of the Minute refers). Further savings are recommended.

- 3.5 The Council operates in an ever-changing environment and its strategic approaches must be flexible in order to reflect this. The sudden emergence of a significantly higher underlying recurring overspend in MIJB in July 2023 compared to when MIJB set their budget in March 2023 followed by the announcement by the First Minister of a Council Tax freeze in October 2023 sharply changed the working assumptions of the Short to Medium Term Financial Strategy, firstly by significantly increasing the target savings to balance the budget in the short term and secondly by severely impairing the key lever which the Council had to increase income by significant levels. At a very late stage in preparation for the budget Scottish Government advised that £145.5 million shown as fully distributed in finance circular 8 / 2023 (issued 20 December 2023) was to be distributed as specific grant, conditional on teacher number retention. The detail of the conditions and provisionally allocated amounts are still to be confirmed.

Income

- 3.6 The Council receives around 80% of its revenue funding from Scottish Government. Over the last eleven years, this grant funding has increased marginally in cash terms, and by considerably less than the cost of new duties required of local authorities. The cash increase in local government funding in 2023/24 is almost entirely in respect of Scottish Government requirements. Inflation increases for pay and prices and growth in demand for services in some areas have therefore had to be balanced by efficiency savings and cuts in services. The Council has made savings totalling £58 million since 2010/11 and it is increasingly difficult to identify areas where further savings can be made whilst delivering the statutory duties of a local authority.

3.7 Income from Council Tax receipts is the other main source of income for the Council. The collection rate dropped in the early stages of the pandemic, with normal debt collection processes paused. With a return to normal debt management practice the collection rate has steadily increased, although it currently remains below pre-pandemic levels. It is unclear at this juncture whether the current high levels of inflation are likely to impact significantly on the collection rate but it clearly heightens the risk for the Council of default by Council Tax payers.

Reserves

3.8 For a number of years the Council relied on the use of free general reserves – and latterly ear-marked reserves - to balance the budget. The Council had been steadily reducing its reliance on reserves and only budgeted to use £10,000 (to cover one-off expenditure) to balance the 2021/22 budget. In that year, the Council was able to retain £1.9 million under the Business Rates Incentivisation Scheme (BRIS) and also planned to use financial flexibilities granted for the pandemic, both time-limited funding, totalling £3.1 million. The base expenditure budget was therefore still overcommitted. That overcommitment was carried forward into 2022/23, with increased expenditure to cover inflation and other budget pressures unmatched by proposed savings requiring the use of reserves of £13.9 million to balance the budget. The underlying overspend in 2022/23 was carried forward into 2023/24 and increased marginally, in an environment of significantly increased inflation. In year savings have reduced this and the Council starts planning for 2024/25 with an underlying overcommitment of £12.798 million. However, added to that overcommitment is an overcommitment by Moray Integrated Joint Board which, if not eradicated, is anticipated to increase the call on the Council's funds by a further £5 million. Changes to government grant funding also impact on savings required and there have been two major changes of note: a reduction in core funding and transfer of £145.5 million from General Revenue Grant to specific grant, with a risk that the conditions of the grant (as yet unspecified) are not fulfilled and so the funding not received. **APPENDIX 1** therefore shows an overall savings requirement in 2024/25 of £ 19.196 million, with savings of £7.445 million already approved. Further savings of £1.052 million are proposed (see section 5 of this report) and the budget is proposed to be balanced by use of £10.225 million covid reserves, which have been used as a working balance for the past two years.

	Budgeted use of general / working reserves		Actual (est act 2023/24)	
	£m		£m	
2017/18	7.611	3.8%	4.615	2.3%
2018/19	4.720	2.4%	3.787	1.9%
2019/20	2.094	1.0%	-	0%
2020/21	2.348	1.1%	-	0%
2021/22	0.010	0.0%	(5.838)	
2022/23	13.881	5.4%	1.562	0.7%
2023/24	15.423	5.9%	14.945	5.5%
2024/25	10.225	3.7%		

- 3.9 The Council needs to retain a certain amount of free reserves in case of unforeseen contingencies or emergencies. The Council's reserves policy as approved by Council on 15 September 2021 (paragraph 29 of the Minute refers) is to hold £5 million as free reserves. This equated to around 2% of budgeted revenue expenditure on General Services. The Reserves Policy falls due for review in autumn 2024. £5 million currently represents 1.7% of the Council's budgeted expenditure and in advance of the detailed review a transfer of £1 million from the Council's ear-marked reserves for Council priorities is proposed, as a matter of prudence, to bring the balance in free general reserves up to 2% of the revenue budget for 2024/25. This level of reserves will be reviewed in detail later in the year using the risk based approach which the Council's Reserves Policy recommends.
- 3.10 Following the late receipts of monies from Scottish Government in March 2021 an ear-marked reserve for covid-related expenditure was set up. Some of the monies were specifically related to various strands of covid-related activity such as education recovery, some were completely general disbursements. All the unused late receipts were transferred to this ear-marked reserve for ease of management. This is a temporary reserve, enabling the Council to manage its finances through a time when recovery from the pandemic was a greater focus than reform of service delivery. This reserve stood at £22,897,000 at 31 March 2023 and a balance of £11,602,000 is projected for 31 March 2024. This ear-marked reserve is seen as a short-life reserve and appropriate to be used to fill the budget gap to facilitate development of plans to do so sustainably. The budget proposals in this report will see this reserve exhausted by 31 March 2025.
- 3.11 The balances projected for 31 March 2024 for all ear-marked reserves are set out in **APPENDIX 1** to this report. Use of the ear-marked reserve for transformation to fund the second stage of the Improvement and Modernisation Programme was approved by Council on 12 May 2021 (paragraph 13 of the Minute refers) with projects costed at £5,061,000 being approved. Progress against these has been reported to committees. A further £1.9 million had been approved in principle but detailed plans had not been brought forward and as the project was not anticipated to generate savings it has been put on hold in the current financial climate. A balance of £4,699,000 for this reserve is projected for 31 March 2024 with further approved spend anticipated to reduce the balance to £3,998,000 by 31 March 2025. The current balance is a modest sum which the Council has set aside against the need to generate further savings of £12 million within the next two years and it is proposed to transfer a further £1.5 million from the reserve for Council priorities, in recognition that the Council must transform its services to become a sustainable Council for the future and this is the Council's top priority. This increases the projected balance at 31 March 2024 to £6,199,000 and at 31 March 2025 to £5,498,000 as reflected in **APPENDIX 1**.

- 3.12 There are current commitments in respect of voluntary early retirements approved by Council on 30 January 2024 against the ear-marked reserves for Council priorities. The reserve currently stands at £5,634,000. This provides an element of contingency for additional costs which will be incurred by the policy of no compulsory redundancies – the cost of this has been estimated as £2.7 million but that is currently under review. The recommended transfers of £2.5 million to free general reserves (£1 million) and transformation (£1.5 million) would leave a balance of £3.1 million for future workforce planning.
- 3.13 As yet there has been no call on the £4,000,000 ear-marked to support loans charges for borrowing for Moray Growth Deal in advance of grant payment. It is now anticipated that monies will start to be drawn down in 2024/25. The likely cost of loans charges was estimated prior to recent increases in interest rates and this reserve may be exhausted prior to sufficient grant being received to cover costs.
- 3.14 An ear-marked reserve arising from the exercise of financial flexibility regarding service concessions is estimated at £11.2 million as at 31 March 2024. This has been approved to be set aside to pay loans charges on new / refurbished schools). The indicative capital plan approved on 24 January 2024 envisaged this being used in total to cover Learning Estate Improvement Programme (LEIP) funded projects prior to LEIP funding coming on stream. This reserve differs from the other revenue reserves as it is not cash-backed – it arises from the retrospective application of the service concession flexibility and is therefore purely an accounting construct. As such it is not considered appropriate to use to cover revenue deficits.

4. REVENUE BUDGET

- 4.1 The draft revenue budget for 2024/25 to 2026/27 is set out in **APPENDIX 1** to this report.
- 4.2 The starting point for the 2024/25 budget is the budget for 2023/24. The brought forward Devolved School Management (DSM) balance and other funding from ear-marked reserves is removed and budgets adjusted to reflect the reinstatement of temporary savings and the full year effects of budget adjustments made for part of 2023/24 only. The picture is complicated by commitment of ear-marked reserves, by funding for schools where funding is made on a financial year basis but implemented on an academic year basis and by slippage in the implementation of some new requirements. The resultant starting point for the 2024/25 budget is expenditure of £268,129,000. A summary of the adjustments to the 2023/24 budget is set out below:

	£000s
Budget reported to Council 6/12/2023 (Q2 budget monitoring)	268,781
Less funded from DSM etc	(1,646)
Redeterminations announced later	1,935
Other savings agreed	(368)
Budget pressures reduced	(573)
Budget to be carried forward	268,129
Adjustments to c/f budget:	
Reinstate one-off savings	1,928
Deduct one-off expenditure	(6,497)
Opening budget	263,560

Provision for pay and prices

- 4.3 Provision of £5,400,000 is made within the budget for pay awards and for some other inflationary increases in expenditure. A deduction of £870,000 is made in respect of pay awards for adult social care staff and this is discussed in section 6 of this report.
- 4.4 Although the rate of inflation has dropped in recent months it continues to run above the UK Treasury target of 2%. The amount allowed for pay awards is one of the high risk areas of the proposed budget. An allowance for a 3% increase has been included as the highest affordable level.
- 4.5 Other standard inflationary increases included are for PPP/PFI contracts, fostering fees and allowances, ELC partner providers and school and other transport contracts. Electricity and gas prices continue to be particularly volatile and in recognition of the significant increases in cost currently projected this is included under budget pressures.

Financing costs

- 4.6 No charge is made to the revenue budget for loans repayment or interest until the year after which the loan is taken out. Consequently the budget for 2024/25 shows the estimated impact of planned capital expenditure in 2023/24. An increase of £800,000 has been allowed for. Interest rates have been increasing and continue to do so, albeit the rate of increase has slowed recently. For comparison, interest on loans paid in 2022/23 was 2.1%, the rate used to set the budget for 2023/24 was 4.9%, the current rate is 5.17% and 5.6% has been used as an estimate in setting the budget. Treasury Management is the subject of another report on the agenda for today's meeting.

New burdens

- 4.7 New burdens are created for local government by legislation passed by the Scottish Government. The budget of £1,283,000 comprises the funding in the draft settlement for additional expenditure to be incurred by the extension of universal free school meals plus the balance of the funding for the expansion of free school meals in the settlement for 2023/24 but not yet used rolled forward.

Budget pressures

- 4.8 Provision is also made within the draft budget for budget pressures which are not funded by Scottish Government. Some of these have already been approved by Council, some recognised as pressures in previous budget papers and some are newly emerging pressures. These are listed in **APPENDIX 2** to this report **and paragraphs 4.9 and 4.10 below** and total £9,258,000 for 2024/25. Indicative amounts are also shown for 2025/26 and 2026/27 where these are currently quantifiable. There are other known potential budget pressures which have not been included, either where it has not been possible to assess the financial impact or where it is considered that the Council can absorb the pressure within current budgets, as experience indicates that some budget pressures will be deferred or be lower than anticipated. Budget pressures recognised within the draft budget for 2024/25 are discussed below.
- 4.9 Funding for schools under the Devolved School Management scheme is formula-driven, with the majority of funding distributed on the basis of school roll numbers. A high level estimate of the impact of the latest school census is included at £243,000. The Council's approved revenue contribution to the Moray Growth Deal project for Early Years STEM is included at £62,000. £596,000 expenditure on improving educational attainment, part of a sum approved by Council on 15 September 2021, is included as a one-off budget pressure – this is to be funded from the ear-marked reserves for transformation. Provision of £635,000 is made for increased costs of electricity and gas, in line with the estimates reported to the Economic Development and Infrastructure Services Committee on 14 November 2023 in the Annual Energy Report. Provision of £30,000 for the Deposit Return Scheme has been rolled forward and will be revised when details of the scheme are announced. Backfill costs of £57,000 for additional Trades Union facility time was approved by Council on 24 May 2023 as a budget pressure in 2024/25. An increase in employers' contributions to the teachers' pension scheme from 23% to 26% from 1 April 2024 was announced in late 2023 and a budget pressure of £1,500,000 is recognised. The budget assumes that this will be funded by Scottish Government increasing General Revenue Grant, funded by Barnett consequentials. This is yet to be confirmed. Additional funding of £11.5 million is included in the settlement for uprating personal and nursing care – this is mandated to be passed to Integration Joint Boards and Moray's share - £80,000 – is therefore included as a budget pressure.
- 4.10 Paragraph 4.9 details recurring budget pressures of £2,607,000 and a one-off budget pressure of £596,000, totalling £3,203,000. The balance of the centrally held provision for budget pressures is £5,000,000 held as a contingency for the balance the Council would be expected to fund of MIJB overspend if the currently level of expenditure continues unabated. It is not held with a view to being spent but rather as a prudent measure, recognising the high risk to the Council that it will be called upon to fund unbudgeted expenditure by MIJB in 2024/25.
- 4.11 The budgeted net expenditure of the Council also increases by £9,167,000 with the transfer of funding for the expansion of Early Learning and Childcare from specific grant into General Revenue Grant. This is not an increase in budgeted expenditure, rather a movement in funding.

4.12 With these additions the total budgeted revenue expenditure for 2024/25 before savings is £287,750,000.

Funding

- 4.13 The bulk of the Council's funding is from government grant, given as a combination of General Revenue Grant (GRG) and Non Domestic Rates distribution. The finance circular 8/2023 includes funding of £202,155,000, of which £79,000 relates to expansion of universal free school meals (a new burden). Estimates have been made for undistributed amounts where the corresponding expenditure is included in base budget: Discretionary Housing Payments (£706,000) and Scottish Disability Assistance (£69,000).
- 4.14 The funding package for pay awards for 2023/24 is complicated. An addition to GRG of £510,000 in respect of Pupil Equity Fund balances to be used in 2023/24 as cash towards the pay award and refunded later have been included.
- 4.15 Funding of £2,485,000 conditional on a Council Tax freeze- has been included. GRG has also increased by £9,167,000 by the transfer of Early Learning and Childcare specific grant. Increased funding of £1,500,000 for the increased cost of teachers' pension contributions has been included, although this is contingent on Barnet consequential funding from UK Government being confirmed after the UK Spring Budget.
- 4.16 A letter for the Cabinet Secretary for Education and Skills to COSLA on 12 February 2024 set out Scottish Government's intention to transfer £145,500,000 from General Revenue Grant to Specific Grant, contingent on agreed teacher numbers being maintained. At the time of writing this report the details of the Specific Grant conditions are not known in detail, nor has the target number of teachers for Moray been agreed. Accordingly this is considered a high risk area, and the estimated amount of Specific Grant is removed from the budget for Scottish Government funding, increasing the budget gap. The potential for the funding to be received is recognised in **APPENDIX 3**. This area will be kept under close review.
- 4.17 With these amendments budgeted funding from Scottish Government totals £215,396,000.
- 4.18 A Council Tax freeze in line with the condition placed on part of GRG (paragraph 4.15) is assumed. The funding conditional on the Council Tax freeze is a significant sum to be foregone and would require an increase of 10% to generate additional income in that order of magnitude. The funding is also recurring and that strengthens the argument for meeting the conditions of this funding. The growth in Council Tax income reflected in **APPENDIX 1** arises in part from assumed growth in the Council Tax base but mainly from the introduction of a levy on second homes as approved by Corporate Committee on 30 January 2024. It also reflects a reduction in entitlement to Council Tax Reduction comparing September 2023 to September 2022.

4.19 Proposed Council Tax by banding is listed in the table below. These figures do not include charges for water and waste water which are collected alongside Council Tax on behalf of Scottish Water, nor do they take into account any Council Tax Reduction, discount or exemption which may be due in individual cases. Scottish Water are proposing to increase their charges by 8.8% in 2024/25. As these are collected by the Council along with Council Tax there is a risk that this increase may adversely affect the in-year collection rate. The increased proportion collected owing to Scottish Water will also affect the Council's income due to the way in which onward remissions to Scottish Water is collected, with the amount due to be remitted based on a percentage of income ingathered, irrespective on whether the dwellings in question have mains water or sewerage. Moray has a high proportion of properties with private water supplies.

	Council Tax 2023/24	Council Tax proposed 2024/25
Band A	£953.79	£953.79
Band B	£1,112.76	£1,112.76
Band C	£1,271.72	£1,271.72
Band D	£1,430.69	£1,430.69
Band E	£1,879.77	£1,879.77
Band F	£2,324.87	£2,324.87
Band G	£2,801.76	£2,801.76
Band H	£3,505.19	£3,505.19

4.20 The resultant budgeted income to the Council for 2024/25 leaves a shortfall of income compared to expenditure of £19,196,000, which requires to be found from savings, which failing from reserves.

5. SAVINGS

5.1 Savings totalling £7,445,000 have been approved to date. Indicative savings of £474,000 from the Improvement and Modernisation Programme are also included.

5.2 Further savings for 2024/25 totalling £348,000 are presented to Council today in a separate report. The budget set out in **APPENDIX 1** includes these in the "Further savings proposed" line which totals £1,052,000 and also contains the savings discussed in paragraphs 5.3 and 6.5 below. These savings are understood to have cross party support and are provisionally included in the draft budget on that basis. A further £208,600 savings for 2024/25 have previously been presented to members for consideration. A summary list of both these sets of potential savings is included as **APPENDIX 4** to this report, with savings 1-9 being those currently included. **APPENDIX 4** summarises all savings previously presented to Council on 25 October 2023 (paragraph 14 of the Minute refers) bar those currently the subject of consultation (Leisure and Libraries service) and constitutes what was referred to in that report as Savings Max. Details of the savings including links to Integrated Impact Assessments (IIAs) are set out in the confidential report to this meeting of Council with the

numbering being the same across the appendices to both reports. These IIAs will be published if relevant savings are approved.

- 5.3 The Council's budget includes a vacancy factor to reflect time lags in appointing replacement staff when staff leave and also that new staff are generally appointed at a lower point on the salary scale point. It is proposed that this factor is increased by £250,000 to reflect the estimated out-turn in 2023/24 and thereafter pro rata to the average pay award for 2024/25 to non-teaching staff.
- 5.4 That reduces the funding shortfall to £10,225,000. It is proposed that the gap is filled by using funds held in the covid reserve, in accordance with the purpose of this reserve (see paragraph 3.8). This is an interim solution for 2024/25, and increases the balance of savings required in 2025/26 from £3,296,000 per **APPENDIX 1** to £13,521,000.
- 5.5 Members from the Administration Group have reviewed expenditure on supplies and services with a view to identifying areas for small scale savings with minimal impact on service delivery. It is intended that these will be discussed with officers and if possible, brought back as savings proposals in early course, along with further proposals for in-year savings in 2024/25 when these have been developed. It is imperative that further savings are made as soon as possible given the projected budget gap in 2025/26.
- 5.6 Areas identified as having potential to generate savings to help bridge the gap are listed in **APPENDIX 3** to this report. This includes an estimate of the impact of the specific grant for teacher numbers, should conditions for receipt of this be met. No estimate of savings likely to be generated by energy efficiency measures is included, but proposals are being developed, as reported in the annual Energy report, and savings are also anticipated to be generated from the leisure and libraries review and from further development of asset management, in particular the depot review and these will be the subject of future reports. Following an Internal Audit report on sundry debt measures to benchmark debt management will be put in place and it is anticipated that savings may be generated from improved management of sundry debt.

6. MIJB

- 6.1 The Council approved the delegation of Children's Services to MIJB as from 1 April 2023 with 2023/24 being a transitional year, during which all financial risks and rewards sat with the Council, i.e. any overspend would be met by the Council, any underspend returned to the Council. From 2024/25 the budget for Children's Services is subsumed within the overall MIJB budget.
- 6.2 The settlement includes additional funding of £11.5 million for uprating Free Personal and Nursing Care and £230 million to deliver a minimum £12 per hour pay settlement for adult social care workers in commissioned services via agreed contract uplifts. The distribution for the latter element has yet to be agreed.
- 6.3 As a delegated service MIJB has complete freedom to decide how the budget is used. However, the responsibility for setting the budget to be transferred to MIJB sits with the Council. In common with recent years there are conditions

on funding for adult social care set as part of the settlement, and the Council must comply with those. The letter from the Deputy First Minister to Council Leaders and Chief Executives states:

“The funding allocated to Integration Authorities for Free Personal and Nursing Care and adult social care pay in commissioned services should be additional and not substitutional to each Council’s 2023/24 recurring budgets for adult social care services that are delegated. This means that, when taken together, Local Authority adult social care budgets for allocation to Integration Authorities must be £214.5 million greater than 2023/24 recurring budgets to ensure funding from Health and Social Care Portfolio contributes to meeting outcomes in this area. Where there is evidence funding is not passed across to be used for the policy intent, the Scottish Government reserves the right to look at reclaiming this.”

- 6.4 Accordingly the Council is restricted in what it can decide regarding funding for adult social care. In particular it cannot apportion part of the budget gap as a savings target for adult social care. This is a matter being pursued by Cosla. A pro rata share of the budget gap would be £2.9 million. This falls to be met by other Council services. As a measure of protection to those services – in recognition that the core Council funding from Scottish Government has been reduced – it is recommended that no funding is passed to MIJB in respect of pay awards for adult social care. This results in the reduction in provision for pay and prices of £870,000 set out in paragraph 4.3. The Council has passed on as recurring funding to MIJB the pro rata share of Scottish Government funding for pay awards and it is considered consistent with that to retain the saving from the reduction in pension contributions by treating this as non-recurring funding.

Funding for the adult social care element of the transfer to MIJB would therefore be:

	£000s
Budget for adult social care @ 31 January 2024	61,579
Less non- recurring funding: Adult Protection, MHO, National Trauma	(137)
Less non-recurring expenditure: reduction in pension contribution	(660)
Recurring adult social care	60,782
Share of £11.5m (FPNC)	80
Share of £230m (estimated – to be confirmed)	3,910
	64,772

- 6.5 There are no such restrictions on Children’s Services and it is proposed that this service is treated on a par with other Council services. Funding for this element of the transfer to MIJB would therefore be:

	£000s
Budget for Children's Services @31 January 2024	19,663
Savings already approved: care placements	(245)
Reduction in investment	(4)
Reduction in pension costs	(227)
Inflation uplift for pay award	300
Savings target (pro rata share of budget gap, spread over 2 years)	(454)
	19,033

6.6 These two elements taken together would mean an opening base budget contribution from the Council to MIJB of £83,805,000.

7 **RISK**

7.1 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 costs. As highlighted in the Financial Planning report to Council on 27 September 2023 a budget risk table has been developed and this is included at paragraph 7.2 below.

7.2 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.

Service area	Budget risk	Scale of magnitude
Cross cutting	Inflation linked contracts / Real Living Wage	
	Pay awards	1% of the non teaching payroll is £1m
Moray Integration Joint Board	Overspend for 2023/24 continues	Based on current core overspend, in the region of £4m and the inclusion of a £5 million budget pressure helps to mitigate the potential impact of this risk
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

Service area	Budget risk	Scale of magnitude
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 continues to increase	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.

7.3 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.

7.4 In addition to cumulative risks around workforce, equalities, socio-economic and rights impacts set out in the summary of implications below, more general risks to the Council also arise from the cumulative impact of savings on the Council and these will increase as the scale of savings increases. Generally, a reduction in staff without a reduction in the Council's activities and duties leads to a less resilient organisation. This can be manifested in a number of different ways: reduction in capacity for partnership and cross service working; reduction in capacity to respond to emergencies; reduction in capacity to support and develop Council staff. In addition to this staff vacancies can also impact on capacity and on service continuity.

8. 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.

(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's funding gap arises from an underlying overspend in 2021/22 which has never been removed but rolled forward, pressures from inflation and service requirements and reduced core government funding.

Savings have been identified, however, a significant funding gap remains and it is proposed to fill this by use of ear-marked covid reserves in 2024/25

A continued and heightened budget gap is therefore forecast for 2025/26. Early action to tackle this projected funding gap is required with further savings to be identified in year in 2024/25.

(d) Risk Implications

The forecast deficits for 2024/25 and 2025/26 represent a significant risk to the Council.

The proposed budget for 2024/25 is subject to the following specific risks:

- The level of the pay award is unknown at present but claims are currently running above the provision proposed in the budget.
- Price inflation will impact on areas where no provision has been made for inflationary increases and this will add pressure to budgets. Budget Managers will need to control their expenditure to absorb such pressure if possible and may have to reduce service levels or identify further savings. The provision made for contract inflation may not cover all calls upon it
- Budget pressures may exceed the available allocation. The Corporate Management Team will be responsible for closely monitoring the issues identified and will report any emerging issues to committee.
- Unforeseen factors can impact on the Council's position. There is no allowance made for unforeseen contingencies.
- Council Tax income may be less than anticipated, depending on the collection rate, rate of growth of Council Tax base, income from the levy and loss of income under the Council Tax Reduction Scheme and other reliefs.
- There may be slippage in achieving savings; savings may not be achieved in full, or the impact of spend-to-save measures may be less than anticipated.
- The cost of borrowing for capital expenditure will increase if the cost of borrowing continues to rise.
- The impact on the Council of external economic factors is unpredictable, and could affect income generated from local taxes and from charges for services, as well as demand for services and benefit entitlement.
- The impact of extreme weather events is unpredictable and can be costly. Such events are increasing in frequency.

- The MIJB has a significant operating deficit 2023/24. A recovery plan is being developed but given the need for lead-in to changes in services provision an overspend in 2024/25 is almost certain. The Council is obliged to meet its share of any overspend, despite having no influence on the operation of the Board.

(e) Staffing Implications

Staffing implications arise indirectly from some budget pressures in this report. The increase in school rolls will be recognised through the DSM scheme which could result in recruitment of staff and extension of universal free school meals may also entail staffing increases. Significant savings requirements imply reduction in staff numbers.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

There are no proposals in this report which directly impact on this area. Impacts are set out in IIAs in the accompanying confidential report and these will be published where relevant savings are agreed.

(h) Climate Change and Biodiversity Impacts

There are no implications for climate change and biodiversity arising from this report.

(i) Consultations

CMT and Heads of Service are involved throughout the budget process, which underpins this report.

9. CONCLUSION

9.1 Savings of £9 million are included in the draft budget for 2024/25.

9.2 The Council's proposed revenue budget for 2024/25 requires use of earmarked reserves to balance.

9.3 Significant further savings are forecast to be required in 2025/26 and early action is required to tackle this issue.

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Background Papers:
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