



REPORT TO: MORAY COUNCIL ON 27 SEPTEMBER 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 revised budget for 2022/23 and consequent revisions to the estimated budget position for 2024/25 and 2025/26.
- 1.2 To approve a Short to Medium Term Financial Strategy aimed at closing the estimated budget gap by 2025/26.
- 1.3 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 revised budget for 2023/24 and, based on current estimates, consequent anticipated small improvement in financial position for 2024/25;**
- (ii) **the timeline for future revisions of the budget gap;**
- (iii) **that there is still considerable uncertainty around key budget assumptions in 2023/24 which will further alter the budget gap;**
- (iv) **the risk factors set out in section 6 of this report; and**
- (v) **notwithstanding the small improvement in budget position from that reported in June, the structural deficit remains and given ongoing uncertainties, the Council still requires to make very significant levels of savings in a short timeframe.**

2.2 It is recommended that the Council approves the Short to Medium Term Financial Strategy set out in APPENDIX 2 to this report.

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.
- 3.2 Council on 8 March 2023 (paragraph x 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. At the update on short to medium term financial planning reported to that Council it was reported that the impact of the funding for the 2022/23 pay award which came in the form of capital grant was being investigated and it was likely that the funding of £2.007 million could be netted off, reducing the budget gap. This has been confirmed and is included in the budget overview for 2023/24 in **APPENDIX 1**.
- 3.3 Scottish Government provided funding in 2022/23 to part fund the teachers' pay award. This was announced as recurring funding but the method of distributing the funding in 2023/24 was not agreed until July 2023. Moray's share of that funding is £2.2 million and that is also included in the budget overview in **APPENDIX 1**. This has the effect of further reducing the budget gap.
- 3.4 The budget gap will be kept under review as it is a fluid area. When estimated actuals are calculated the impact on the Council's reserves will be recalculated and reported to committee in November, along with any emerging budget pressure arising from the estimated actual position. The draft local government settlement is expected in December and a further update will be provided in January 2024. Estimated actuals will be updated and form part of the position to be reported when the budget is approved in March 2024. At each of these points movement in the Council's financial position can be expected. What cannot be foreseen at this juncture is whether the position will improve or worsen. However, there are a number of risk areas which are flagged up in this report and will continue to be reported as part of the wider context in which projected figures are reported.
- 3.5 Further amendments made since the last report to Council are set out in section 4 of this report.

4. BUDGET PRESSURES AND GRANT FUNDING 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 One budget pressure has been removed – as reported to Corporate Committee on 29 August 2023 (paragraph 9 and 10 of the Minute refers) the budget pressure of £5,000 for a contribution towards a study on potential energy from renewables has been removed as this is no longer required, with a different approach to the issue being taken.
- 4.3 A provisional amount of £1.5 million was included in the report to Council on 28 June 2023 for an emerging budget pressure relating to Additional Support Needs. Following a report to that meeting of Council the provisional sum has been adjusted to £1.8 million, a one-off sum of £1.1 million and a recurring sum of £0.7 million.
- 4.4 Council at its meeting on 24 May 2023 approved an extension to trade union facility time at a cost of £57,000 and this has been added to budget pressures in the overview.
- 4.5 The net result of this is an increase in budget pressures of £0.352 million and a decrease in budget carried forward to 2024/25 of £1.1 million
- 4.6 Savings required across 2024/25 and 2025/26 are now projected as totalling £15.9 million, with £1.8 million identified, leaving a balance of £14.1 million to find, £13.3m in 2024/25 and £0.8m in 2025/26.

Revenue Support

- 4.7 Two redeterminations of General Revenue Grant in respect of specific services have been notified and are included in the updated overview. Funding of £68,000 for summer holiday activities was announced on 5 July 2023 and reported to Education, Children and Leisure Services Committee on 19 September 2023. Funding of £264,000 for Employability (No-one Left Behind) was announced on 12 July 2023. These have been treated as new burdens funding ie it is assumed that there will be additional expenditure funded by the increase in grant.
- 4.8 As noted in paragraph 3.3 redetermination of £2.2 million was announced on 25 July 2023. Having confirmed that the full impact of the pay award for 2022/23 is included in the budget for 2023/24 the impact of this funding is a reduction in the projected budget gap for that year.

5 FINANCIAL PLANNING

Short to Medium Term Financial Strategy

- 5.1 A Short to Medium Term Financial Strategy to guide the preparation of budget for 2024/25 and 2025/26 has been prepared, with the purpose of the Strategy being to have a balanced budget by 2025/26 with the structural deficit removed i.e. the Council is no longer reliant on the use of reserves to balance its budget.
- 5.2 The Strategy sets out the main financial levers available to the Council within budget preparation: Council Tax and other income; staffing and the Council's asset base. The interplay of these levers create the various budget options

which the Council has to consider. In particular, increased income from Council Tax or other sources enables a lower level of service reduction. Correspondingly, a reduction in staffing and / or the Council's asset base lessens the need to raise Council tax or other charges.

- 5.3 The Strategy sets out the approved Savings Hierarchy of transformation, income generation, service reduction and cessation and links to the Reform Matrix, which underpins the Council's work on service transformation. These together give direction to both short to medium and medium to long term financial planning. Following the hierarchy, the strategy identifies issues for consideration in the short to medium term financial planning process.
- 5.4 The Strategy defines the key strands of work on the short to medium term financial plan as:
- "Savings Max" – the maximum service efficiencies and reductions considered possible at this time, and
 - "Income Max" – opportunities to maximise income and so reduce the need for service cuts including council tax
 - with subsidiary strands of Transformation – what phases 1-3 in the Improvement and Modernisation Programme will be focussed on, and
 - work to identify what the Council will look like in coming years – the "Future Council".

The need for savings is ongoing as budget pressures emerge, and transformation and what the future council will look like will be key features of the medium to long term financial strategy and plan.

- 5.5 The Strategy also identifies the wider context in which short to medium term financial planning will be taking place, from the Corporate Plan, to specific areas of risk for the planning process, to wider considerations such as inflation.
- 5.6 The Strategy is shown in a simplified numerical illustration as the "Budget on a Page", set out in **APPENDIX 3** to this report. This follows the staged and layered approach to savings which has been followed during the year in the financial planning process, reflecting progress to date in closing the budget gap across various themes – transformation, income generation, procurement, workforce strategy, service savings – and showing on a staged basis the various steps which could contribute towards filling the budget gap. The figures used for savings are indicative as further work is required to put together a package of savings for reporting to Council in October.

Medium to Long Term

- 5.7 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. It is planned to report this to Council in October as it requires further development of the future council approach.

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.

- 6.2 A risk which has been highlighted during the financial planning process in previous years is that of overspend by Moray Integration Joint Board (MIJB). MIJB reported an overspend of over £2 million at the end of June 2023. The Board has plans in hand to claw back the overspend but that is clearly a major task to accomplish within a six month time frame with winter approaching. The Council needs to recognise that there is a risk that it will be called upon to provide additional funding for MIJB, under the terms of the Scheme of Delegation. This will be updated on when the estimated actuals are reported in November 2023, but if the overspend is not brought back under control, based on quarter 1 the council's share of that overspend for 2023/24 would be in the order of £4m.
- 6.3 A budget pressure for Additional Support Needs (ASN) is referred to in paragraph 4.3. Provision has been made for a one-off budget pressure of £1.1m, and there is also one-off funding included in the ASN budget to support the service during the ASN review. There is a risk that the one-off funding is also required to become recurring. This will be quantified and reported in the next update on short to medium term financial planning.
- 6.4 When the budget for 2023/24 was approved, indicative figures for 2024/25 and 2025/26 were based on the forecast assumption at that time that inflation would rapidly return to the Treasury target of 2%. Events in recent months have seen inflation dropping at a far slower rate than forecast at the beginning of the calendar year. The provision for inflation needs reviewing and will be reviewed for the next update in October. An increase in the provision for contract inflation appears inevitable, particularly given the indexation of the payment for PPP schools and the fact that the Council is a Living Wage employer and high inflation will mean a corresponding uplift in the Real Living wage. In addition, pay settlements have not yet been agreed for 2023/24 with strike action planned in support of increased settlements.
- 6.5 These are considered to be the major risks at present. However, there are also risks to the Council arising from the fact that we budget for winter maintenance for a mild winter – a late severe winter will always lead to an overspend in this area and currently there is also a significant amount of unbudgeted expenditure on legal fees, for a variety of reasons. Other service areas will be reviewed and added to what will become a budget risk table. This will give earlier warning of potential areas of unbudgeted spend than at present, when emerging budget pressures are reported only as they begin to be quantifiable. All of these factors mean that while the recent small improvement is welcomed, the structural deficit of over £12m remains and as further fluctuations in the budget gap are inevitable, progress to remove that deficit must continue with pace and urgency.

5. **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 of over £12m 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 and the Short to Medium Term Financial Strategy sets out how this is planned to be achieved. There are considerable uncertainties regarding a number of budget pressures, particularly pay awards, and other areas of risk to the budget process. 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 and the areas considered to be pertinent are listed in the report.

(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) when reported.

(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.

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.

6.2 The Short to Medium Term Financial Strategy sets out the proposed approach to tackling this issue.

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Background Papers:

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