



REPORT TO: MORAY COUNCIL ON 12 FEBRUARY 2020

SUBJECT: FINANCIAL PLANNING

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

1. REASON FOR REPORT

- 1.1 To report to the Council on the development of savings proposals aimed at reducing the predicted budget gap for 2020/21.
- 1.2 To update the Council on current financial forecasts.
- 1.3 This report is submitted to Committee in terms of Section III (A) 2 of the Council's Scheme of Administration relating to considering Capital and Revenue Budgets and long term financial plans.

2. RECOMMENDATION

- 2.1 It is recommended that the Council agrees:-
 - (i) having considered the Equalities Impact Assessment, those savings which do not require consultation for implementation by 1 April 2020;
 - (ii) that staff consultation is undertaken for the remainder of the savings and thereafter, as the scale of change proposed is at a level normally dealt with through service level Change Management Plans and changes are based on vacancies, that authority is delegated to service managers to consider responses, make any necessary adjustments and then proceed with implementation in accordance with the Council's agreed policies and procedures; and
 - (iii) that any savings in APPENDIX 1 not agreed today may be reconsidered at a later date if the funding gap still remains.
- 2.2 It is recommended that the Council notes the updated projections for 2020/2023 as set out in APPENDIX 3.
- 2.3 It is recommended that in light of the draft Medium to Long Term Financial Strategy and pending greater clarity on the budget process for

Local Government for 2020/21, the Council continues the short term financial planning process agreed in September 2018 which is based on a combination of:

- (i) savings already identified in APPENDIX 1;**
- (ii) consideration of further savings which could be implemented in 2020/21 and 2021/22 many of which would involve service reductions;**
- (iii) savings generated through the Improvement and Modernisation Programme; and**
- (iv) use of budget flexibility including general reserves within the agreed Reserves Policy.**

3. BACKGROUND

- 3.1 The Council began planning its approach to setting a budget for 2019/20 in September 2018. At that time a short term plan was formed to reduce expenditure in 2019/20 and 2020/21. This recognised the two fundamental issues underpinning the Council's budget gap: an underlying historical overspend in the revenue budget (£5.2million) and the pressure of accommodating increasing costs and growth against shrinking funding (£7million). In light of this it was agreed that work should be also be undertaken on medium and longer term financial planning. The draft Medium to Long term Financial Strategy was considered by Council on 27 November 2019 (paragraph 17 of the Minute refers) and will be presented to Council on 3 March 2020.
- 3.2 When the Council approved its budget for 2019/20 on 27 February 2019, £10.3 million of savings were projected for that financial year with further projected savings in 2020/21 of £2.3 million and in 2021/22 of £0.4 million. At that point a budget shortfall of £12.2 million was forecast for 2020/21. Following cumulative savings of £53 million since 2009/10, there are clearly diminishing returns in terms of the ability to identify further savings based on redesigning and redefining services particularly given the scale of savings made in 2019/20 and so the focus must increasingly turn to income generation and transformation through the Improvement and Modernisation Programme and other transformational programmes or projects.
- 3.3 The predicted shortfall for 2020/21 has been reviewed in the light of the out-turn for 2018/19, projected out-turn for 2019/20 and other changes notified to date, including savings of £178,000 arising from appeals on the valuation of schools resulting in a reduction in NDR due of £178,000 in year. The historic underlying overspend brought forward to 2020/21 has been reduced to £1.9 million. A more detailed review of the assumptions, risks and uncertainties inherent in the financial planning process was included in the draft Medium to Long Term Financial Strategy. The current estimated budget gap for 2020/21 is £8.2 million. Savings of £1.752million have previously been approved for 2020/21 and indicative savings of £0.538 million for the Improvement and Modernisation programme are forecast.

4. CURRENT POSITION

- 4.1 Due to the general election, the UK Government postponed the UK Budget announcement from 6 November 2019. A new budget date of 11 March 2020 has been set. As a result of this delay, the Scottish Government did not set their budget as proposed on 12 December 2019. A revised date of 6 February 2020 was announced on 31 January, 2020, along with a truncated budget timetable. The budget is anticipated to be debated in Holyrood in the first week of March. The Council plans to set its budget on 3 March 2020.

UPDATED SHORT TERM FINANCIAL PLANNING PROCESS

- 4.2 **Additional Savings – APPENDIX 1:** The long term financial stability of the Council will require transformation of the delivery of services but meantime immediate savings are required to reduce the Council's reliance on the use of reserves to balance the budget. The savings listed in **APPENDIX 1** total £609,000 for 2020/21.

These savings would be aligned for implementation on 1 April 2020 if agreed by Council, with communication as indicated in **APPENDIX 1**.

- 4.3 Staff numbers are anticipated to be decreased by 5 FTE posts as a result of proposed savings but this reduction will be accommodated through vacancies and using the Council's Transform procedures. Workforce consultation will be undertaken in accordance with existing policies and procedures. Given the profile of the staffing savings which is at a scale normally managed through service level Change Management Plans and the fact that they are based on existing vacancies, delegated authority is sought to enable service managers to proceed with implementation subject to any adjustments identified in the consultation as required having been made.
- 4.4 **Further savings** – Further savings proposals with staffing implications are the subject of a confidential report on this agenda.
- 4.5 As was the case in 2019/20, achieving savings of the scale required to bridge the gap is incredibly challenging and so it is likely that we will manage this over a two year period by making savings in 2020/21 and using our reserves to help balance our budget while further savings options are identified both in year for 2020/21 and for 2021/22. Workforce management is an area which has consistently borne savings as vacancies provide the opportunity to release efficiencies. Procurement is another area in which further savings may be possible through more effective contract management. A dialogue will also continue with local communities around areas where they may have capacity to assist if services are reduced or stopped, such as has been the case with grass cutting and public conveniences. Ultimately however, a radical change in thinking will be required and services which are not otherwise protected may require to be further tailored, targeted and stopped in order to control costs, recent examples being the restriction in opening hours at public libraries and council access points and removal of school crossing

patrols. Moving forward consideration has been given to the level at which core services must be delivered and where possible, savings configured on this basis. These and other challenges facing the Council formed part of the conversation with the public on the draft Corporate Plan in November.

- 4.6 **The Improvement and Modernisation Programme** - An Improvement and Modernisation Programme was approved by Council on 12 December 2018 (paragraph 5 of the Minutes refers) and updates provided thereafter to Policy and Resources Committee and Transforming the Council Board.
- 4.7 Although the Council has made significant savings over the past ten years, many of these have been based on service efficiencies and reductions. The Council consulted with members of the public during 2017/18 on potential measures to reduce the Council's reliance on the use of reserves – "Bridging the Gap" – and to enable the Council to manage within further reduced support from Scottish Government for core services. The immediacy of the need to reduce reliance on reserves has required a focus on savings which can be generated within a short time scale. The Council was close to having bridged the gap created by use of reserves to fund recurring budgets in 2019/20 (albeit that the gap will again widen in 2020/21, mainly due to inflationary pressures) and must now focus its attention on longer term transformation of service delivery. The Improvement and Modernisation Programme is the approved vehicle for such work currently being carried out. During development of this Programme it has become clear that further transformational programmes or projects will be required going forward.
- 4.8 The current Programme includes major areas for service transformation – Education and Children's Services – which are in the process of being developed and which will form a significant part of the Council Transformation agenda. As reported to Policy and Resources Committee on 14 January 2020 (paragraph x of the Minute refers) work continues to confirm potential savings and timescales and will be reported when fully developed.
- 4.9 **Budget Flexibility** – the whole thrust of the Council's short and medium to long term financial planning process is to minimise use of reserves to plug the budget gap, as this is ultimately unsustainable. However, the heightened lack of certainty in terms of Scottish Government funding for 2020/21 arising from the UK General Election and delay in budget announcements at UK and Scottish level increase the likelihood that the Council may require to fall back on reserves to balance the budget in 2020/21. Use of reserves of £5 million is included in the budget overview at **APPENDIX 3**, leaving an estimated free balance on general reserves of £5.6 million. The overview includes the savings proposed in this report in the savings summary. The Council's current reserves policy is to retain free reserves of £5 million. The Council therefore has the flexibility to use a further £0.6 million free reserves. However there are risks inherent in reliance on reserves and the scale of use of reserves currently forecast highlights the need to achieve recurring savings in early course. Use of reserves entails a requirement to find additional savings in 2021/22. This is reflected in the projected savings requirement for 2021/22 of £11.4 million.

- 4.10 In addition to free reserves, the Council has ear-marked reserves of £2 million for Council priorities and £0.7 million for Transformation – the Council could utilise these reserves to bridge the budget gap if the local government settlement is worse than contained in current budget assumptions. However, this would significantly reduce the Council’s capacity to fund change. The projections and estimates on which this gap has been based are set out in the draft Medium to Long term Financial Strategy.
- 4.11 **Other Actions** – The Chief Executive remains in ongoing discussion with representatives of the Scottish Government regarding the budgetary challenges which the Council faces. Work has also commenced through Cosla to review the funding methodology used for Local Government funding, and lobbying continues through the Administration Group and otherwise on issues relevant to our budget settlement.

5. SUMMARY OF IMPLICATIONS

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

The Council’s Corporate Plan 2019-24, approved in draft by Council on 2 October 2019, will provide direction and focus for financial planning and the alignment of reasons to priorities.

The Corporate Plan 2018-23 included as a priority “work towards a financially stable council that provides valued services to our communities”. The savings proposed in this report contribute to achieving that priority.

(b) Policy and Legal

The Council is required by statute to set its Council Tax rates for 2020/21 by 11 March 2020. Before it can do so it must ensure that it has sufficient money to meet its total estimated expenses for the coming year. This requirement (setting a balanced budget) is set out in the Local Government Finance Act 1992 (Section 93).

As previously reported, other legislation sets out the requirements for the proper administration of financial affairs, the requirement to secure Best Value and for sound financial stewardship in revenue and capital budgets. There is also a requirement to comply with the CIPFA Prudential Code.

This report has been prepared as part of ensuring the Council is undertaking the preparation that is necessary to enable the Council to comply with these duties.

(c) Financial implications

The Council is forecast to require finding savings of £8.2 million in 2020/21. This report identifies £609,000 which if approved will contribute towards this target. The savings identified will still leave a significant budget gap, which will require use of reserves. However there are risks inherent in reliance on reserves and the scale of use of reserves currently forecast highlights the need to achieve recurring savings in

early course. Use of reserves entails a requirement to find additional savings in 2021/22. This is reflected in the projected savings requirement for 2021/22 of £11.4 million.

(d) Risk Implications

There are numerous risks associated with financial planning and setting a balanced budget, particularly as the Council's reserves reduce.

The following are of particular note:

- Short timescale due to UK General Election;
- One year settlement expected;
- Likely scale of savings still to be achieved;
- Strain on resources in undertaking required scale of budget and change work while also managing day to day services, which is also likely to affect service delivery;
- Challenge of implementation of savings options with little scope for slippage or review;
- Reduction of reserves to minimal level limits scope for investment in change or to accommodate unforeseen circumstances;
- Cost of employee exit payments place added budget pressure to be accommodated through savings.

Reliance on use of reserves is itself a risk for the Council as it removes flexibility to deal with the cost of change and increases future savings requirements.

A significant risk to the Council arises from the funding arrangements for Moray Integration Joint Board (MIJB), whereby the Council is obliged to meet around 40% of any MIJB overspend. This risk is being managed through management discussions held jointly with the Chief Executives of NHS Grampian and Moray Council and the MIJB Chief Officer, supplemented by quarterly financial Cross Partnership meetings, which involve a wider officer group and the Chair of MIJB and Council Leader.

(e) Staffing Implications

The workforce implications in the budget proposals for 2020/21 contained within this report are as follows:

Vacancies – the proposals in Appendix 1 would lead to 5 full time equivalent posts being removed that are currently vacant. For two of the posts, the service is being redesigned with the impact on remaining posts part of a consultation with employees affected. One post reflects a slight redesign where there was a vacant post following retirement and the other post has been empty for some time and duties and responsibilities have already been re-allocated.

Service change – one post is being removed and the employee is being automatically matched to another post.

Given the limited scale of the workforce implications of the proposals it is proposed that any consultation responses are considered by service

managers and reported to heads of service with delegated authority to make any necessary adjustments and proceed with implementation.

(f) Property

There are no property implications arising from this report.

(g) Equalities/Socio Economic Impact

One Equality Impact Assessment Statement (EIA) was been required for a saving proposed in this report, and this is attached as **APPENDIX 2**. No other saving proposed in this report potentially impacts on people with protected characteristics.

(h) Consultations

The Corporate Management Team and Heads of Service have been consulted in the preparation of this report and their comments have been incorporated into the report.

6. CONCLUSION

6.1 A number of savings which can be implemented immediately are proposed, in order to lessen dependence on reserves.

6.2 Projections for 2020 to 2023 have been updated to accommodate the most up to date information available to the Council.

6.3 Future financial planning reports will consider service transformations. The potential scale for transformation and likely timescales require to be further developed. Meantime additional savings will require to be considered.

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Background Papers:

Ref: LP/LJC/