REPORT TO: MORAY COUNCIL ON 19 JANUARY 2022

SUBJECT: SHORT TO MEDIUM TERM FINANCIAL PLANNING

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

1. REASON FOR REPORT

1.1 To inform the Council of the updated financial projections for 2021/22, 2022/23 and 2023/24.

1.2 This report is submitted to Council 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:

(i) notes the revised budget estimates for 2021/22, 2022/23 and 2023/24;

(ii) notes the emerging budget pressures summarised in paragraphs 3.7 and 3.20;

(iii) approves additional funding of £52,000 as itemised in paragraphs 3.11 and 3.13, to enable the recruitment process for a Programme Management Officer for Moray Growth Deal to commence in early course and immediate procurement of software to improve cybersecurity; and

(iv) approves savings of £800,000 for 2022/23 as set out in paragraph 3.14, subject to approval by Education, Children's and Leisure Services Committee on 26 January 2022 of future proposals for Children's Services.

3. BACKGROUND

3.1 The draft Local Government settlement was announced on 20 December 2021. The settlement is for an increase in cash terms above the (non-covid related) funding from Scottish Government in 2021/22. However, there are a considerable number of increased duties for local government and increased costs associated with legislative change – such as the increase in Employer's National Insurance - and the estimated cost of these outstrips the additional funding allocated. Not all funding for 2022/23 is included in the distributed amounts and estimates of the additional funding have been included in the budget summary in **APPENDIX 1** where the associated expenditure is included in base budget.

3.2 As approved by Council at its meeting on 20 September 2021 (paragraph x of the Minute refers) and last reported to Council on 30 November 2021 (paragraph x of the Minute refers), Heads of Service have been asked to identify budget pressures for their services and potential redesign proposals to build on the Improvement and Modernisation Programme (IMP) approach and look for opportunities to develop preventative work, demand management and other transformation of service with a view to generating efficiencies in the medium to long term.

Draft local government settlement

3.3 The draft local government settlement is for 2022/23 only. The Scottish Government Spending Review of December 2020 indicated an increase in funding for local government – the actual increase is more modest than previously indicated and as noted in paragraph 3.1 is entirely committed to new duties, largely from the programme for government. Although the latest Scottish budget is a one year budget, the UK budget was for three years. In that budget the Scottish block grant is more generous in 2022/23 than indicated for 2023/24 and 2023/25. Given that indication of future funding intent, and the fact that the tax take in Scotland was significantly below that forecast in December 2020, the estimated level of grant funding for Moray for 2023/24 and 2024/25 included in **APPENDIX 1** has been reduced from the previous assumption of 1% growth in cash terms. The current planning assumption is for flat cash. That assumption is probably optimistic.

3.4 The settlement also includes an update on the 2021/22 funding position. The local government settlement approved by the Scottish Government in March 2021 included an element of £259 million for "non-recurring covid related consequentials". Moray's share of that element was £4.466 million, and that sum was assumed to be without strings attached. The draft local government settlement announced on 20 December 2021 indicated a reduction in the £259 million to £195.171 million. Following enquiries via COSLA Scottish Government have confirmed that £63.829 million has been distributed as funding for specific purposes. The residual balance is assumed to remain as uncommitted funding, and Moray's share is £2.628 million. This has been adjusted for in **APPENDIX 1**, and reduces the leeway for funding covid related and other pressures in 2022/23.

3.5 The settlement includes specific grant funding. This is not reflected in the overview at **APPENDIX 1**, as the funding is restricted in use and netted off expenditure – the assumption is that income and expenditure are equal. However, the expansion of early learning and child care was funded by specific grant and there are emerging budget pressures arising in that area which, if not contained, will require to be recognised as a pressure on core funding. Discussions relating to this specific grant are taking place between COSLA and Scottish Government, as the funding has been reduced in total and the method of distribution changed, creating budget pressures for a number of local authorities for a Scottish Government policy priority which was supposed to be fully funded. This area is further considered at paragraph 3.20 below.

3.6 Scottish Government has allowed financial flexibilities to be used to cover covid related costs in 2022/23. This includes the use of capital receipts. Previously the Council has taken advantage of the concession to use capital receipts to fund transformation projects to generate financial savings but insufficient projects have been developed to use the full amount of capital receipts generated by the Council during the period of this concession. Unused capital receipts of £2.722 million were held as at 31 March 2021 and a further £0.316 million capital receipts were generated in the first six months of this financial year, as reported to the Corporate Committee on 30 November (paragraph x of the Minute refers). A report on the proposed use of capital receipts to fund transformation projects in 2021/22 will be made to Council in February 2022. It is currently assumed that there will be a significant balance available to use as a financial flexibility in 2022/23 and £1.784 million covid related costs are assumed to be met from capital receipts in the overview included as **APPENDIX 1** to this report.

Budget pressures

3.7 The Council has always recognised budget pressures as part of its financial planning process and previously approved budget pressures are listed in **APPENDIX 2**. Budget pressures arise from a range of causes: changing legislative requirements, increased demand, contractual obligations, new government policies and priorities. The drivers for change for different services need to be recognised to assist onward planning and this should form part of the budget setting process where at all possible. Emerging budget pressures are being monitored and an initial report made to Council on 30 November 2021. An indicative estimate to cover other emerging budget pressures has been included in the updated overview at **APPENDIX 1.** Work to refine these will continue, and these will be reviewed prior to submission of the draft budget in February 2022. The emerging budget pressures discussed below arise from restricted funding streams in the draft local government settlement, the continuing impact of covid restrictions, rising school rolls, the requirements of Scottish Government regarding Moray Growth Deal, proposals for the Employability service and cyber security measures.

3.8 The draft local government settlement issued on 20 December 2021 includes a number of funding streams for education. Some are continuations of previously funded initiatives. Work continues to clarify the extent of additionality. At present the sum of £1.392 million has been added as a budget pressure for additional teachers and classroom assistants.

3.9 A budget pressure arising from loss of income at leisure facilities was included when the budget for 2021/22 was approved. At that time the assumption was that income levels would being to recover during 2022/23. Given the level of restrictions still in force it is now considered prudent to anticipate that this will take longer than anticipated a year ago and budget pressures have been adjusted to reflect this. Allowance has also been made for a reduction in car parking income. As the long-term effect of the pandemic is likely to include increased working from home, a permanent reduction has been allowed for.

3.10 Updated estimates of the impact of school rolls have been made, based on the latest projections following the school census in the autumn. School rolls are projected to continue to increase and this brings cost pressure.

3.11 Work on developing the outline business cases for the Moray Growth Deal (MGD) has clarified Scottish Government expectations of the work which will be entailed in developing full business cases and in monitoring and reporting through the life of MGD. From this the following budget pressure has been developed: £25,000 to increase the grade of the Programme Management Officer to truly reflect the level of responsibility of this postholder (currently vacant), with further budget pressure for a new post of Programme Officer to support the Senior Responsible Officers and a new part-time finance post to take on the additional work of financial monitoring and reporting. Work continues to quantify the hours required for the new posts. This would represent a modest increase of expenditure to support the significant investment represented by MGD

3.12 The Council's Employability service is undergoing redesign and indications are that some posts will be job evaluated at a higher grade than present. A budget pressure has been included to recognise this.

3.13 In recognition of the increased likelihood of cyber attacks on public sector organisations, the Council's ICT service has been investigating potential cyber security improvements. Potential protection against phishing attacks has been identified and suitable software costed. This would have an on-going cost of £27,500 and it is proposed that a budget pressure of £27,500 is approved to fund this as a matter of urgency.

Savings

3.14 One saving is recommended to be approved for 2022/23 at this juncture: £800,000 reduction in the budget for out of area placements for looked after children, reflecting projected levels of expenditure in 2022/23 if current placements continue. The overview reflects a higher level of saving (£1,500,000) based on the projected out-turn for 2021/22 and this requires to be updated. The proposed saving of £800,000 has been updated to reflect recent commitments. Further savings from service redesign are proposed and these will be the subject of a report to a future meeting of the Education, Children's and Leisure Services Committee. The service redesign is anticipated to stabilise the current level of spend prior to further projected reductions and so the proposed saving is contingent on approval of the service redesign.

Short term financial planning

3.15 The revised budget position for 2021 to 2025 is included as **APPENDIX 1** to this report, updated to incorporate the draft financial settlement, the additional emerging budget pressures and proposed saving referred above. The underlying position of the Council in 2021/22 remains that budgeted expenditure is overcommitted against funding, with reliance on the use of Business Rates Incentivisation Scheme (BRIS) retention and financial flexibilities (now swapped out against ear-marked covid reserves) to balance the budget. The initial estimated out-turn for 2021/22 indicates an overall overspend, adding to the likely pressure on reserves for this financial year. The budget also assumes covid ear-marked reserves will be fully utilised by 2024/25, giving maximum protection against the need to make savings in the short term, although that still results in a projected savings target of over £13 million in 2023/24. It seems unlikely that transformation of services would generate financial savings of that magnitude within that short time frame, particularly given the nature and scale of current proposals, and so attention will have to be given to service cuts as it is anticipated that much of the projected budget gap will have to be met in this way.

3.16 The projected figures do not include recurring budget to address increased poverty or promote wellbeing (except where there has been Scottish Government funding allocated for this purpose) and support only a limited move towards preventative approaches. Based on the consultative framework document on the Resource Spending Review from Scottish Government currently out for consultation, child poverty appears to be a continuing priority alongside a move to prevention and these may be a focus for future budget settlements. The degree of national funding to support any local budget proposals in these areas will be speculative however until this focus in the Spending Review is more clearly defined, following the consultation process. The budget and service challenges for a move to a preventative approach is continuing to meet current demand whilst resourcing the development of prevention.

3.17 The figures reflect the Council decision to set aside monies to fund transformation of services and other priorities, but the funding is all from reserves and can only be used for development and not for recurring expenditure. This means that as well as generating savings for 2023/24, a clear strategy within services receiving transformation funding will be needed to sustain improvements when this funding ends without generating recurring additional revenue costs as failure to do so will further increase the savings which require to be identified.

3.18 There are still significant uncertainties regarding the Council's finances, particularly regarding teachers' pay awards for 2021/22, pay awards for 2022/23 and for future years and the impact of the consolidation of the Living Wage, with significant differences between the different models investigated. Inflation continues to increase and the impact of this is beginning to be felt. The recently agreed pay award is likely to result in contract price increases, particularly for social care providers and Early Learning and Childcare partner providers and is also likely to create pressure, along with higher rates of inflation, for higher pay awards for local authority staff and procured services in the near future.

3.19 Further uncertainty exists regarding Early Learning and Childcare. The expansion of Early Learning and Childcare has been funded through specific grant from Scottish Government and in the first three years of the expansion the grant has been underspent. However, an underlying overspend is forecast for 2021/22, albeit that overall the expansion is anticipated to be contained within the total revenue grant funding over the four year period..

This will be the subject of a report to a future meeting on Education, Children's and Leisure Services Committee. The draft settlement indicates a significant reduction in the specific grant funding for this service in 2022/23 and options for the service will have to be developed and reported on. Given these circumstances it would seem prudent to make provision for some level of overspend at least in the earlier part of the financial year when the budget for 2022/23 is set.

Timescale

3.20. Budget setting for 2022/23 is planned for 22 February 2022.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))
The Council's budget should reflect the Council's priorities as expressed in the Corporate Plan and LOIP.

(b) Policy and Legal
The Council must set a balanced budget as required by the Local Government Finance Act 1992 (section 93).

(c) Financial implications
The financial implications are set out in the report. The Council faces challenges in developing both revenue and capital plans, with an underlying requirement to make savings. There are sums set aside for transformation of services but these can only be spent once and only amount to less than 5% of the Council's funding requirement.

(d) Risk Implications
There are many risks inherent in financial planning. Current major risks for the planning process are identified in the report. However, the biggest risk would be if the Council did not adequately plan for the future.

(e) Staffing Implications
There are no staffing implications arising from this report.

(f) Property
None arising directly from this report.

(g) Equalities/Socio Economic Impact
None arising directly from this report.

(h) Climate Change and Biodiversity Impacts
There are no climate change and biodiversity issues arising from this report.

(i) Consultations
CMT has been consulted in the preparation of this report and comments incorporated.

5. CONCLUSION

5.1 The Council has an underlying requirement to make savings. The focus should be on transformation of services to reduce costs whilst still delivering services but the recent draft settlement and lack of sufficient spend to save initiatives / transformation proposals would appear to make service cuts inevitable.

5.2 Use of financial flexibilities and funding from the covid ear-marked reserve will facilitate balancing the budget in 2022/23, while new transformation plans and savings proposals are developed

5.3 There remains uncertainty around aspects of the draft settlement which require to be resolved in early course.

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Background Papers:
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