REPORT TO: SPECIAL MORAY COUNCIL ON 27 FEBRUARY 2019

SUBJECT: 2019/20 BUDGET AND 2019-2022 FINANCIAL PLAN

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

1.1 To set the level of Council Tax for 2019/20, to agree the Council's revenue and capital budgets for 2019/20 and to consider the council's Financial Plan for 2019-2022.

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) (24) and (25) relating to the approval of the annual estimates of revenue and capital expenditure for all services.

2. RECOMMENDATION

2.1 It is recommended that the council approves (subject to the Scottish Budget being approved by Scottish Parliament on the 21 February 2018):

(i) An increase of 4.79% on Council Tax for 2019/20;
(ii) Provision of £5,153,000 for budget pressures as listed in APPENDIX 2;
(iii) Savings previously approved subject to consultation totalling £860,000 as listed in APPENDIX 3a and, where applicable, amended in APPENDIX 3b;
(iv) Savings totalling £2,101,000 as listed in APPENDIX 3b, subject to consultation for savings marked c;
(v) Use of general reserves of up to £3,312,000 to balance the budget;
(vi) Capital expenditure for 2019/2020 as set out in the indicative ten year Capital Plan in APPENDIX 4 and described in APPENDIX 5;
(vii) That preliminary work to revert to capital expenditure based on asset management principles rather than Make Do or Mend is commenced, with a view to implementing this in full by 2022/23;
(viii) Charges for harbours, leisure facilities and burial grounds, which form part of the proposed / agreed savings as listed in APPENDIX 6a, APPENDIX 6b and APPENDIX 6c respectively;
(ix) Not to lift residual (green) bins containing garden waste, in line with the existing refuse collection policy as it relates to contamination in recycling waste bins;

(x) To join the Digital Office to support the development of digital services in Moray; and

(xi) Promotion of e-billing for Council Tax as described in paragraphs 5.2.14 and 5.2.15.

2.2 It is recommended that the council notes:

(i) The conditions placed on the council in terms of the settlement letter from the Cabinet Secretary for Finance and the Constitution; and

(ii) That the budget is based on the figures issued by the Scottish Government in December 2018 and January 2019 and that the council's budget will be amended to reflect any changes made by the Scottish parliament when the Scottish budget is approved.

(iii) That the Chair of Moray Integration Joint Board (MIJB) has written to the Chief Executive formally notifying him that MIJB anticipates an overspend of £1.5 million in 2018/19, which falls to be part-funded by the council.

3. BACKGROUND

3.1 The council's revenue and capital budgets for 2019/20 fall due to be considered in a continued period of reduced funding from central government at both a United Kingdom and Scottish level.

3.2 The council receives around 80% of its revenue funding from Scottish Government. Over the last nine years, this grant funding has increased marginally in cash terms, and by considerably less than the cost of new duties required of local authorities. 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. As previously reported, the council has made savings totalling £42 million since 2010/11.

3.3 Although the proposed Scottish budget for 2019/20 was not announced until 12 December 2018, further cuts in local government funding were expected and the council has been preparing for these. The most recent report on the financial planning process was considered by the council on 23 January 2019. Milestones for the financial planning process for 2019/20 are set out in **APPENDIX 7.**

3.4 Although the Local Government settlement is for one year and much of the focus of financial planning has been on achieving a balanced budget for 2019/20, the Council has made progress in developing medium term financial planning. Of particular note in this regard is the Corporate Plan 2018-23, which was approved by Council on 14 February 2018; the approval of the Improvement and Modernisation Programme (26 September 2018 and 12 December 2018) and the approval of the Property Asset Management Appraisal by Council on 12 December 2018.

3.5 The council had general usable reserves of £17 million as at 31 March 2018, but part of those balances were ear-marked for specific purposes in 2018/19, as set out in the table below.

General Reserves	**Committee Reference**	**Approved £000s**	**Revised Projection £000s**
General Reserves @ 1 April 2018		17,095	17,095
LESS To balance the 2018/19 Budget	MC 14/02/18	4,726	
Budget reduction from variance report	MC 28/06/18	(137)	
		4,589	4,589
Funding from reserves approved in 2018/19:			
Benefits Welfare Reform	MC 28/06/18	8	8
Roads Maintenance	MC 28/06/18	231	231
Community Planning	MC 28/06/18	48	48
Syrian Resettlement Programme	MC 28/06/18	20	20
Elgin High School Replacement	MC 28/06/18	180	180
Building Financial Resilience	MC 28/06/18	5	5
Discretionary Housing Payments	MC 28/06/18	29	29
		521	521
Transformation	MC 12/12/18	700	28
Strain on the Fund Costs	MC 12/12/18	1,747	1,747
LESS Use of Capital Receipts		(500)	(500)
		1,947	1,275
Estimated Out-turn – Variance to be met from reserves		2,132	2,132
Landfill Tax		200	200
Projected Free Balance @ 31 March 2019		7,706	8,378

3.6 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 31 October 2018 (paragraph 5 of the minute refers) is to hold £5 million as free reserves. This equates to around 2.5% of budgeted revenue expenditure on General Services.

3.7 The table above indicates that the council has flexibility to use £2,706,000 general reserves to balance the budget without breaching its reserves policy.

3.8 In the extremely challenging position in which the council finds itself consideration should also be given to breaching the reserves policy by up to £700,000, as agreed by Council on 23 January 2019. The overview at **APPENDIX 1** assumes that this will be done and that the reserves will be restored to policy position in 2021/22.

4. REVENUE BUDGET

4.1 The draft revenue budget for 2019/20 – 2021/22 is set out in **APPENDIX 1** to this report.

4.2 The starting point for the 2019/20 budget is the budget allocated to departments and loans charges for 2018/19. The brought forward Devolved School Management balance is removed and budgets adjusted to reflect the reinstatement of temporary savings and the full year effects of budget adjustments made for part of 2018/19 only. The resultant starting point for the 2019/20 budget is expenditure of £201,249,000.

4.3 Provision of £4,900,000 is made within the budget for pay awards and some other inflationary increases in expenditure.

4.3.1 The pay award for 2018/19 has not been agreed at the time of writing this report. The offer of a 3% increase for 2019/20 and 2020/21 has been used to develop the inflation provision and £4 million is included.

4.3.2 Other inflationary increases included are for PPP/PFI contracts, the Grampian Valuation Joint Board requisition, fostering fees and allowances, electricity and gas price increases and increase in landfill tax rates.

4.3.3 The increase in Non-Domestic Rate (NDR) poundage from 48p to 49p announced alongside the local government settlement has the effect of increasing NDR payable by the council by £90,000, and this sum is included within the provision for inflation.

4.4 The Capital Plan is discussed in section 6 of this report. The full year effect of borrowing in 2018/19 and the estimated impact of planned capital expenditure in 2019/20 are included in the draft revenue budget. This results in a year on year saving of £1 million, deriving from a change in application of general capital grant to fund capital expenditure according to the expected life of the asset (by shortest life first) and by capitalising interest on assets under construction. For comparison, the budget for loans charges in the draft budget for 2019/20 is around £2 million less than would have been the case had these accounting treatments not been adopted.

4.5 New burdens are created for local government by legislation passed by the Scottish Government. The general revenue grant funding notified in the draft settlement includes funding of £180,000 for the extension of the Carers' Act and £1,942,000 funding to be passed to Moray Integration Joint Board to fund growth in services. It is proposed that inflationary growth (pay award, National Care Home Contract) is covered by this sum, enabling the council to make a saving on its inflationary provision. Additional funding for free personal care for under 65s is included in the settlement but allocation at individual local authorities is yet to be announced. An estimate of £582,000 is included. Estimates are also included for the following new burdens anticipated to fall in 2019/20: Barclay Review reforms to Non-Domestic Rates, which underpins an increase in the requisition from Grampian Valuation Joint Board, reinvigorating the Whole System Approach to Youth Justice, access to free sanitary products, child burials.

4.6 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 total £5,153,000. 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. The main budget pressures are discussed below.

4.6.1 Social Care – MIJB have officially notified the council of their anticipated overspend. On the assumption that this will continue in the short term, a budget pressure is noted.

4.6.2 Integrated Children's Services – the anticipated overspend on Out of Area placements has been reported in budget monitoring reports to council and Policy and Resources Committee. An overspend on continuing care is also anticipated. This is a new burden on the council which was not fully funded by Scottish Government. Further expenditure of £25,000 is projected to be required for Child Protection.

4.6.3 School roll numbers are projected to increase and a budget pressure based on the latest school census figures is included. Further pressures arise from the increase in class contact hours. The restructuring of the school week was anticipated to lead to a reduction in income to the school catering service and the full year effect of that is provided for. A revised contract for SEEMIS has been issued, with an increased cost of £7,000 for Moray in 2019/20.

4.6.4 Inflationary increases in software licences are not provided for and these are now outstripping the ability of the ICT service to absorb within renegotiated contracts. The pressure of £42,000 is based on anticipated expenditure for 2018/19.

4.6.5 Income is expected to be below targets in a number of areas and these are projected to be recurring variances: building standards fees, income for street naming and numbering, advertising on vehicles, industrial estate voids anticipated for two high rental properties with leases due to terminate in 2019.

4.6.6 The Local Plan examination falls due on a cyclical basis only and provision is required for 2019/20.

4.6.7 The impact of the reduction in the public service pension scheme discount rate is £1.8 million. This will be part funded by Scottish Government. The additional cost is included in full as a budget pressure but additional income is also forecast.

4.6.8 The budget for recharge to capital is based on a previous – higher – forecast capital plan and a budget pressure of £200,000 is included to reduce the budget for recharge of roads, engineering and property staff to the capital plan.

4.6.9 A temporary additional Community Support Officer post was approved to support Community Asset Transfer. The appointment was made during 2018/19 and the full year effect included as a budget pressure in 2019/20. Costs concomitant on the restructure of Economic Development and the extension of electronic document management were also approved by council.

4.6.10 Moray is the only council in Scotland which does not belong to the Digital Office, a Scottish Government sponsored body for supporting the development of digital services. Lack of membership is increasingly inhibiting discussion with other authorities about development of digital services in Moray. The annual cost of membership is estimated at £15,000.

4.6.11 In preparation for Moray Growth Bid additional resource of £30,000 is estimated to be required. This will be the subject of a separate report to council requesting release of funds if required.

4.6.12 The increase in the cost of paper and card recycling and in the cost of leachate has been reported to council and Policy and Resources committee in budget monitoring. It is anticipated that these costs will be recurring and a budget pressure totalling £183,000 has been included.

4.7 The council is looking ahead at a programme of Improvement and Modernisation to transform council services, and this is a key part of the council's medium term financial strategy. This requires investment and a sum of £2,672,000 is included for 2019/20, of which £1,500,000 is assumed to be funded from capital receipts under the recently given permission to use capital receipts to fund transformation of council services for the period from 2018/19 to 2021/22. This takes the total budgeted revenue expenditure for 2019/20 before savings to £213,703,000.

4.8 The bulk of the council's funding is from government grant, given as a combination of General Revenue Grant and Non Domestic Rates distribution. The local government settlement in December 2018 confirmed that funding for Discretionary Housing Payments (DHP), for the Teachers' Induction Scheme and Early Years Expansion are being held back by Scottish Government at present. An estimate has been made for Moray's likely share of the funding streams for DHP and Teachers' Induction, as the expenditure on these areas is included in the base budget. Increased funding for Early Years Expansion will be paid as specific grant (as in 2018/19) and applied to that workstream, and so no estimate of either income or expenditure related to Early Years is included in the figures in **APPENDIX 1**. Core Scottish Government funding of £153,056,000 is included, plus £2,777,000 for new burdens, and an estimate of £1,403,000 to part fund the increase in teachers' pensions arising from a decrease in the pension scheme discount rate applied by UK Government totalling £156,654,000. This compares to total Scottish Government funding of £155,848,000 in 2018/19, plus £595,000 advance funding for 2018/19 paid in 2017/18 - £156,443,000 in total. It should be noted that there is an element of estimation involved in these figures. In particular, the funding for teachers' pensions will not be confirmed until after the UK Government's spring financial statement.

4.9 Under the terms of the local government settlement for 2019/20 the council is permitted to increase Council Tax by up to 4.79%, and a 4.79% increase has been included in the draft budget. This coupled with a rise in the Council Tax base is estimated to raise an additional £2,000,000 income. The impact on individual householders is set out below:

	Council Tax 2018/19	**3% Impact Council Tax 2019/20**	**4.79% Impact Council Tax 2019/20**
Band A	£802.75	£826.83	£841.20
Band B	£936.54	£964.63	£981.40
Band C	£1,070.33	£1,102.44	£1,121.60
Band D	£1,204.12	£1,240.24	£1,261.80
Band E	£1,582.08	£1,629.54	£1,657.87
Band F	£1,956.70	£2,015.39	£2,050.43
Band G	£2,358.07	£2,428.80	£2,471.03
Band H	£2,950.09	£3,038.59	£3,091.41

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.

4.10 Moray's Band D Council Tax for 2018/19 sits just below the Scottish average of £1,208. Comparisons with other councils are set out in the table below.

COUNCIL TAX BY BAND 2018-19

Scotland Average Band D Council Tax (based on total Band D Equivalents)	**£1,208**	
	Band D	**%age of Scottish average**
Eilean Siar	£1,086.36	90.2%
Orkney Islands	£1,100.00	91.4%
Dumfries & Galloway	£1,112.88	92.4%
Shetland Islands	£1,117.13	92.8%
North Lanarkshire	£1,130.94	93.9%
South Lanarkshire	£1,134.00	94.2%
Falkirk	£1,135.00	94.3%
Angus	£1,137.28	94.4%
Scottish Borders	£1,150.02	95.5%
West Lothian	£1,161.84	96.5%
East Lothian	£1,185.68	98.5%
Fife	£1,186.09	98.5%
East Renfrewshire	£1,194.57	99.2%
West Dunbartonshire	£1,197.89	99.5%
Renfrewshire	£1,199.63	99.6%
Moray	£1,204.12	100.0%
Aberdeenshire	£1,204.62	100.0%
East Dunbartonshire	£1,211.39	100.6%
Perth & Kinross	£1,216.00	101.0%
Clackmannanshire	£1,217.91	101.1%
North Ayrshire	£1,222.16	101.5%
South Ayrshire	£1,224.23	101.7%
Stirling	£1,232.91	102.4%
Highland	£1,233.82	102.5%
Inverclyde	£1,233.94	102.5%
Edinburgh, City of	£1,240.19	103.0%
Argyll & Bute	£1,249.00	103.7%
East Ayrshire	£1,261.40	104.8%
Dundee City	£1,278.00	106.1%
Midlothian	£1,283.00	106.6%
Glasgow City	£1,286.00	106.8%

Excludes Water and Sewerage

Source: As reported by the Local Authorities on the statistical return Council Tax Assumptions 2018

4.11 The resultant budgeted income to the council for 2019/20 plus use of reserves as discussed in section 3 of this report leaves a shortfall of income compared to expenditure of £10.3 million, which requires to be found from savings.

5. SAVINGS

5.1 In preparation for the budget, a suite of savings was discussed by the Council on 26 September 2018 and, following consultation, on 12 December 2018, when a range of savings were approved. A further suite of savings was discussed by the Council on 23 January 2019. A range of savings were approved, some of which were subject to staff consultation and those savings are brought back before council today with recommendations for amendment / approval as appropriate. All savings previously considered, totalling £7,924,000, are listed on **APPENDIX 3a**, with savings subject to consultation indicated (c).

5.2 Amendments to savings following consultation and further savings totalling £2,101,000 are presented to Council today. These are listed on **APPENDIX 3b** and discussed below.

5.3 Amendments arising following consultation:

5.3.1 Contractual over-time – historically contractual overtime has been used to cover out of hours duties for janitorial staff, including emergency call out, snow clearing, frost protection. The contracted hours are in excess of those regularly required and it is considered that contractual hours can be reduced and most circumstances accommodated within the reduced amount saving £14,000 in 2019/20 and £18,000 is 2020/21.

5.3.2 The library savings previously proposed for consultation included a programme of closures. This programme is now proposed to be amended, resulting in reduced hours at Burghead, Dufftown, Fochabers and Lossiemouth (previously proposed to be closed) and closure of Cullen and Tomintoul libraries. The revised proposals would reduce hours as follows:

Location	Current opening hours	Proposed opening hours	Saving £
Burghead	11	8	1,900
Dufftown	16	10	3,800
Fochabers	17	10	4,400
Lossiemouth	34	16	11,300
Total			21,400

This is a reduction of £76,000 from the previously proposed closure programme. It avoids repayment of European funding for the development of Learning Centres in these libraries

5.3.3 Active Schools – it is now proposed to remove 2 x 0.5 fte posts (one of which is vacant) from the staffing structures and to remove the rugby development budget of £2,000 as all rugby development work is now managed through the Moray Community Rugby forum. The acting up element of the post associated with the Leisure Review will be funded from funds for service transformation. This reduces savings by £33,000 in 2019/20 and £109,000 in 2020/21. The savings can be achieved without impacting on the level of grant provided by sportscotland.

5.3.4 Music Instruction – it is now proposed to restructure the service and increase charges by 20%. This will result in a reduction in savings of £14,000 in 2019/20 and £30,000 in 2020/21.

5.3.5 Some public conveniences currently attract NDR relief which will be lost on closure of these facilities. It is proposed that the subsequent reduction in savings of £21,000 is offset by savings generated from the re-valuation of Buckie Drifter for NDR of £22,000.

5.3.6 On 23 January 2019, the Council agreed to initiate a campaign to "use or lose" swimming pools. An indicative target of 300 additional Fit Life memberships was adopted. At close of play on 19 February, 440 additional membership applications had been received. Accordingly, there is no proposal to close any swimming pools as part of the 2019/20 budget proposals.

5.4 Further Savings

5.4.1 School advertising – it is no longer the practice to advertise vacant posts in newspapers and it is proposed that the budget is reduced by the amount of the resultant savings (£35,000).

5.4.2 Community Planning Partnership (CPP) – only the Police and the council currently provide funding for CPP. It is proposed that the council's funding is reduced to the same level as that provided by the Police (£5,000), generating a saving of £13,000. The council will continue to support CPP through staff supporting the work of the partners.

5.4.3 Commercial harbour fees – commercial harbour fees have been reviewed and proposed fees are listed as **APPENDIX 6a** to this report. The proposed fees are estimated to generate additional income of £30,000 pa.

5.4.4 The previously postponed savings from reduction of hours cleaning schools is brought back for consideration.

5.4.5 Vacant post in Lifelong learning, Culture and Sport – the budget for a vacant post in this service had been held pending review. It is now proposed that this is taken as a saving of £25,000.

5.4.6 Following discussion with Moray Leisure Limited about the feasibility of reducing the operating grant from the Council by £60,000, this saving is now proposed.

5.4.7 Development Services – a review of management and support functions within this service indicates the potential to restructure with consequent savings estimated at £30,000, subject to job evaluation. It is also proposed that a vacant post in Business Gateway is removed, with additional support to Business Gateway provided from staff within Development Services, generating a saving of £24,000. These savings are subject to consultation with staff.

5.4.8 The budget for accessibility in schools is currently a revenue budget but historically the bulk of expenditure has been capital in nature and this is likely to continue. It is therefore proposed that the bulk of the budget is transferred into the capital programme, generating a revenue saving of £40,000. This is reflected in the draft capital plan.

5.4.9 It is proposed that the council does not uplift payment to MIJB for staff pay awards, National Care Homes contract (NCHC) uplift, or growth from children in transition to adults' services, in recognition that the council is passing on funding from Scottish Government of £1,942,000 for unspecified growth in social care service costs. The council has included £800,000 in its inflation provision for social care staff pay awards and NCHC uplift and this proposal would enable a saving of £800,000 against that provision. The council also recognises the projected 2018/19 overspend by MIJB as a budget pressure and it is proposed that the additional funding is used to absorb that budget pressure of £555,000. There is still a risk that the council will require to provide additional funding to meet any further overspend in 2019/20.

5.4.10 Further savings have been identified: national changes to the Landlord Registration process, resulting in the removal of 10% discount in fees (£6,000); Carbon Reduction Commitment (CRC) replaced by increased Climate Change Levy (CCL) at an estimated saving to the council of £100,000; savings from replacement light fittings in Forres Community Centre (spend-to-save project) - £2,000; Interest on Revenue Balances increased rate £95,000.

5.4.11 Further one-year savings of £120,000 accrue from the school transport contract, as the school year is one week shorter in 2018/19 due to increase summer holidays for that year.

A further one-of saving is proposed by removing the direct funding which the council gives to Community Councils (£16,000) for one year only. The council will still provide support via the Community Council Liaison Officer.

Grampian Valuation Joint Board is forecasting an underspend for 2018/19, expected to result in a refund of £13,000.

5.4.12 Council Tax E-billing

The Council Tax section issue around 44,000 bills on an annual basis to all households across Moray. In addition during the year, an estimated further 60,000 bills are issued for a variety of reasons including change of address, entitlement to or an adjustment to a reduction such as discounts, exemptions or Council Tax reductions. The costs associated with the production of a paper bill, including printing, enveloping and postage is circa 30p therefore the approximate annual cost is over £30,000.

5.4.13 It is planned to launch e-billing as part of this year's billing process with promotion of the scheme being promoted on the envelope. This is equivalent to a mailshot hitting every household at no extra cost. Uptake across Councils who already offer e-billing has been quite disappointing, although there does seem to be an improvement where some sort of incentives are offered. The most recent Scottish Council to offer an incentive was Argyll and Bute, offering as a prize a free year's Council Tax for the winner. In Moray five prizes of £100 one4all vouchers will be offered as an incentive, with draws being made in April, June, September, November and January. The objective is to maintain the promotion throughout the year with the cost of the incentive being less than a full year's Council Tax. One4all vouchers are currently used for Council long service awards and can be used for a wide variety of goods and services and a range of suppliers and retailers. Councillors, senior staff and their immediate households would be excluded from the prize draws.

5.4.14 Promotions to include:

- Social media advertising
- Press release
- Info on website and banner
- Info on interchange and banner
- Connect
- Contact Centre promotion and IVR messaging
- Tenant's Voice
- A4 posters in access points, libraries and leisure centres
- Advertise e-billing on envelopes of paper Council Tax annual bills and any bill issued by paper thereafter
- Incorporate option on change of address e-form
- Use prize winners draw to promote further
- Links in "myaccount" to other initiatives such as the brown bin sign up campaign

6. CAPITAL BUDGET

6.1 The council approved its latest Capital Strategy on 12 December 2018. The Strategy identifies the Council's capital investment objectives as ensuring an adequate suite of assets to deliver the Council's services, in accordance with the Council's policies, strategies and plans, and priorities, legislative duties and other requirements and identifies as a key consideration when developing the Capital Plan the requirements to provide new infrastructure and facilities to accommodate planned local developments. This is a move from previous Capital Strategies which have been primarily focussed on asset management and the need to invest in the Council's asset base to bring it up to or maintain it at the Council's approved standard for the asset type.

6.2 Accordingly, the Capital Plan is framed by the following drivers for expenditure:

- Local Development Plan and other council plans
- Asset Management Planning
- Expenditure arising from legislative requirements
- Improvement and Modernisation Programme / efficiencies
- Funded government priorities
- Other developments to meet Council priorities
- Responsive expenditure

6.3 A draft ten year capital plan is included as **APPENDIX 4** to this report. Expenditure of £72.6 million is proposed for 2019/20. This includes expenditure postponed from 2018/19 as a short term savings measure and expenditure deferred as approved by Council or Policy and Resources Committee in response to changing circumstances throughout the year. Expenditure under the draft plan and sources of funding are summarised below:

	Driver	**£m**	**%age**
1.	Local Development Plan and other council plans	9.6	13.2%
2.	Asset Management Planning	39.8	54.8%
3.	Expenditure arising from legislative requirements	13.2	18.2%
4.	Improvement and Modernisation Programme / efficiencies	1.4	1.9%
5.	Funded government priorities	4.4	6.1%
6.	Other developments to meet Council priorities	3.1	4.3%
7.	Responsive expenditure	1.1	1.5%
	Total	72.6	100%

	Funding	**£m**	**%age**
	Grant funding	24.2	33.3%
	Prudential borrowing	48.4	66.7%
	Total	72.6	100%

6.4 The council's borrowing must comply with the Prudential Code: this requires borrowing to be affordable and sustainable. As identified in a report to council on 30 March 2016 (paragraph 7 of the minute refers) the council's overall financial position is not sustainable and the capital plan for future years requires to be reduced; to achieve this the council must reduce its asset base, and this issue is addressed in the Property Asset Management Appraisal approved by Council on 12 December 2018.

6.5 As a temporary measure, the council adopted a Make Do and Mend policy (25 May 2016) to avoid abortive expenditure on assets which might be disposed of. This policy was intended as a temporary expedient. Following the approval by council on 12 December 2018 of the Property Asset Management Appraisal (PAMA) it is now considered appropriate to move away from this policy, as PAMA provides a more nuanced and tailored vehicle to avoid abortive spend.

6.6 In the case of the school estate a significant lead in time will be needed to move from Make Do and Mend to a developed asset management led programme of work based on updated conditions surveys and informed by the Transforming Education theme in the Improvement and Modernisation programme. Consequently a delay is shown in moving to implement this change in policy, which should however be fully implemented by 2022/23.

7. FUTURE YEARS

7.1 As noted in paragraph 3.6, the local government settlement for 2019/20 is a one-year settlement only. To assist in forward planning, projected budgets for 2020/21 are included in **APPENDIX 1**. This assumes that the savings approved for 2019/20 and 2020/21 are achieved and the rest of the budget rolled forward. With a provision for inflation and known budget pressures, this results in a shortfall of £10,000,000 in 2020/21: an underlying overspend of £3.6 million to be met from reserves in 2019/20 plus inflationary and other budget pressures anticipated in 2020/21 totalling £9 million, and a modest reduction in core government funding offset by £2 million full year effect of savings approved or under consideration for 2019/20. The Institute of Fiscal Studies recent report “The Outlook for the 2019 Spending Review” forecasts a modest cut in unprotected budgets or UK level for 2020/21 followed by continued real term cuts in unprotected budgets of between 0.3% and 0.8% for the next three years. However, this cannot be extrapolated into the Scottish context.

7.2 Major components in the budget are used to develop best case, worst case and mid-point scenarios for financial planning purposes. These have been finalised for the draft 2019/2020 budget. The assumptions used for future years are described below.

7.3 Staff costs account for around 2/3 of the council’s net revenue spend. The draft budgets for 2020/21 and 2021/22 assume the current pay offer of a 3% increase for both of those financial year. The budget is very sensitive to pay assumptions, with a 0.5% variance amounting to £650,000.

7.4 Grant funding has been assumed at flat cash. This is the most optimistic assumption for funding. Various organisations have produced estimates of government funding for future years at UK and Scottish levels. These generally assume a decrease in non-priority / protected areas of spend. Recent experience has been that the level of decrease is very difficult to forecast with any degree of confidence. Future grant funding estimate will be updated following confirmation of funding for teachers pensions and thereafter in line with updated budget forecasts from Scottish Government.

7.5 The council prepares a ten year indicative capital plan and the indicative revenue budgets for 2020/21 and 2021/22 include the impact of that indicative capital spend.

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).

The Local Government (Scotland) Act 2003 (section 35) places a duty on local authorities to manage their capital expenditure. It also provides for Scottish Government to issue regulations for the governance of capital expenditure. In practice this means that compliance with the CIPFA Prudential Code is in effect a statutory duty.

(c) Financial implications

The council's funding gap arises from an underlying overspend in 2018/19 and pressures from inflation and service requirements in 2019/20.

(d) Risk Implications

The proposed budget for 2019/20 is subject to the following risks:

- Budget assumptions may be lower than the actual level of expenditure required by services. In particular, the pay award for 2018/2019 has not been agreed.
- 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 any such pressure and may have to reduce service levels or identify further savings.
- Budget pressures may exceed the available allocation. Corporate Directors will be responsible for closely monitoring the issues identified and will report any issues to committee.
- Unforeseen factors can impact on the council's position. There is little allowance made for contingencies.
- Government funding may be less than assumed for the elements yet to be allocated at council level.
- Council Tax income may be less than anticipated, depending on the collection rate, income from the levy and loss of income under the Council Tax Reduction Scheme.
- 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.
- Current cost of borrowing for capital expenditure is low and the cost to the council will increase if the cost of borrowing rises.

- 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.
- In particular, the impact of BREXIT is unknown and hence unquantifiable.

(e) Staffing Implications

Workforce Consultation

A summary of the issues raised and responses is provided in **Appendix 8.**

The purpose of the consultation was to engage with employees and workforce representatives under the statutory requirements for consultation with employees and trade unions where contractual changes and redundancies may be required.

General feedback from the trade unions related to concerns about changes to proposals based on information already available to the council thereby causing unnecessary upset and distress to some employees, the swiftness of budget related information appearing on social media and how the council process for dissemination of information should be adapted to be able to mitigate against this and the wider impact of the proposals on the poorest households in Moray. There were concerns about the level of detail and timing of information available during the consultation process as well as the impact of managing the residual work in a number of areas across the council. Feedback also related to concerns about the impact on attainment and achievement in schools, the impact of larger class sizes on children with additional support needs, the impact on recruitment of teachers to the area and the sustainability of services based on uptake of the Fit Life scheme.

Concerns were also raised in relation to the difficulties in managing demand in specific services that are needs led, continuing to be able to meet our legislative requirements and proposals running contrary to several of the council's ambitions and priorities.

Feedback was also received directly from the workforce on some proposals and these are also contained within the summary.

Regular meetings were held to respond to queries for clarification and additional information. Responses have been provided to all formal responses from trade unions and managers are responding to feedback from individual employees who are affected. The proposals were also discussed with the trade unions at the meeting of the JCC on 7 Feb 2019.

Workforce Impact

The impact on the workforce has changed as proposals have been amended and removed and this information refers to the residual changes excluding the proposals for Active Schools and Sports Development, swimming pools and including updated proposals for Libraries. As a result the most up to date position is that there will be a reduction of 88 jobs (51.8 full time equivalent (fte)).

The situation has been managed using the council's Transform procedures and through an active promotion of voluntary early retirement and voluntary severance.

An equality impact assessment has been completed on the workforce implications and the results of this are referred to in section (g) below.

Voluntary Exits

As part of the management of the workforce implications arising from the budget savings, the council sought interest in voluntary early retirement and voluntary severance. There is a separate report on the council agenda that seeks approval of applications under these schemes, subject to the relevant savings proceeding.

There are 34 VER/VS cases supported and the cost of these voluntary departures would be £0.42m. This would deliver ongoing annual salary savings of £0.64m. The Council's policy is that severance costs should be recouped from the annual savings they generate over a period of up to 3 years. The overall cost of these exits would comply with that policy.

Transform

Activation of Transform measures including vacancy management, appointment of temporary staff and redeployment has also enabled the effective reduction of the workforce affected by the budget savings. As result of the combination of these measures, the current workforce situation is that 33 jobs (8.33 fte) remain at risk with a total annual salary cost of approximately £191,000. Anticipated redundancy costs would be approximately £85,000.

Efforts will continue to find suitable alternative work for the individuals concerned and it is hoped that this will be successful in a number of cases before the implementation of the savings in April 2019. However, in accordance with the decision of the council on 23 January, the next step would be to proceed to instigate redundancy measures and to issue notice of redundancy dismissal to relevant employees so that they leave the council no later than 31 March 2019 (end June 2019 for school based staff) unless otherwise agreed.

(f) Property

There are no property implications arising directly from this report. The provision for capital expenditure and revenue repairs and maintenance is insufficient to prevent the fabric of the council's estate from deteriorating.

(g) Equalities/Socio Economic Impact

The equality duty

Under the equality duty (set out in the Equality Act 2010) the Council must have 'due regard' to the need to eliminate unlawful discrimination , harassment and victimisation as well as well as to advance equality of opportunity and foster good relations between people who are in a protected group and those who are not.

Groups protected by the Act are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

Councillors need to consider the effects of budget proposals on these protected groups before making a decision on the recommendations. An 'equalities impact assessment' or EIA is a recognised way of doing this.

APPENDIX 9 summarises the EIA process and outcomes for the new savings and amendments to previously agreed savings proposed to this report. Stakeholder consultation is recommended for Youthpoint, Essential Skills and ESOL.

In relation to the workforce, no potential discrimination has been identified and so there is no requirement to change proposals as a result of this EIA. The EIA notes arrangements that have been put in place to support the workforce and mitigate the impacts of workforce change and the positive effect that these have had.

Socio-Economic Impact

To assess socio economic impacts, consideration has been given to individual and cumulative impact. In relation to changes to charges for services, most of these are one-off or incidental charges which are unlikely to contribute to to inequalities in terms of outcome based on socio-economic differences.

(h) Consultations

Following the meetings of the Council on 26 September 2018, 12 December 2018 and 23 January 2019, consultation and engagement commenced with stakeholders and the workforce on the measures proposed for the 2019/20 budget. These ran from *5 December 2017* to 15 January 2018. The results of these exercises have been taken into account when preparing the budget.

Public Consultation

As noted in the Council report of 26 September 2018 (paragraph 6 of the Minute refers), the public have expressed a preference for decisive action from the council on changes and effective communication of decisions. In the current financial circumstances, there is limited scope to vary the savings under consideration, which draws into question how meaningful any public consultation could be. It is likely that public consultation would raise objection, the content of which can be anticipated, and the council would be unable to accommodate these objections. Given the severity of the financial position, the range of consultations undertaken previously and current time constraints, it is not considered that there is scope for real influence or value to be added from public consultation at this stage. Therefore consultation has been limited to proposals where equality inputs are required or community engagement will assist in considering future services and that otherwise communication with the public is contained to the provision of information about the decisions.

Workforce Consultation

Consultation information was issued to the trade unions and to individual employees whose employment could be affected by the savings being considered. Consultation took the form of face to face meetings with individuals, groups and trade unions as well as e-mails and written communications. Managers in services affected were briefed in order to be able to respond to questions and issues and wider information was provided to all managers for briefing and discussion of the financial situation with all council employees.

This consultation set out to both engage employees across the council and to meet the statutory requirements on consultation with employees and their trade unions where contractual changes and redundancies may be required.

9. CONCLUSION

9.1 The council's revenue budget is unsustainable, even in the short term, with a balanced budget achieved for 2019/20 by use of reserves above that recommended by the council's Reserves Policy. This use is seen as a short term contingency. Significant further savings are forecast to be required in 2020/21

9.2 The budget for 2019/20 to 2021/22 includes provision to invest in transformation of the council.

9.3 The council's asset base is unsustainable in the medium term. Review of this has commenced and the capital plan assumes the cessation of the Make Do and Mend policy, with a phased transition to asset management-led spend on the school estate.

9.4 To minimise the level of savings required, Council Tax is proposed to be increased by the maximum permitted by Scottish Government without incurring sanctions.

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Background Papers: