



---

**REPORT TO: MORAY COUNCIL ON 15 SEPTEMBER 2021**

**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 To consider the approach to development of the revenue budget for 2021/22 and 2022/23.
- 1.3 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 continued underlying requirement to deliver savings;**
- (iii) **agrees that the focus during 2021/22 and 2022/23 should be on service redesign and realignment, delivering efficiencies in the short term (within 12-36 months) rather than on immediate in year savings and should include consideration of budget pressures from external influence;**
- (iv) **approves the use of covid ear-marked reserves as set out in paragraph 3.3;**
- (v) **approves further ear-marking of free general reserve as set out in paragraph 3.12; and**
- (vi) **approves additional funding of £75,000 in 2021/22 for Social Care services in response to a recently identified urgent requirement for support for a vulnerable person.**

### 3. **BACKGROUND**

- 3.1 When the budget for 2021/22 was set on 3 March 2021, the Council planned to balance its budget by using financial flexibilities granted by Scottish Government to cover the cost of the pandemic. The projected requirement from financial flexibilities was £1.251 million. Since then Scottish Government approved their own budget for 2021/22, which includes an increased settlement for local government in 2020/21 and 2021/22, largely relating to funding for response to the pandemic and including significant levels of funding arising from Barnett consequential. As reported to Council on 30 June 2021 (paragraph of the Minute refers) the Council has £16.4 million pandemic related funds held in an ear-marked reserve. An initial estimate of commitments against these reserves has been made.

#### **Latest Financial Position**

- 3.2 The current assessment of the situation is that £10.128 million of the reserves will be required to cover additional expenditure / loss of income relating to the pandemic. This will be kept under review and updated as the situation becomes clearer. Budget pressures relating to the pandemic totalling £1.307 million were included in the budget approved on 3 March 2021. Use of covid reserves to meet these removes the requirement to use financial flexibilities. However, those budget pressures were estimated based on an earlier resumption of services such as leisure services than has been the case and the extended restrictions have increased budget pressures. A summary of the position is set out below.
- 3.3 Current projected use of covid reserves in 2021/22:

	Para	Approved	£000s
<b>Included as budget pressures</b>			
Reduction in income (leisure services)		MC 03/03/21	500
Increased cost building cleaning		MC 03/03/21	452
Economic recovery plan		MC 28/10/20	197
Staycation facilities		MC 03/03/21	85
Recurring costs ICT equipment		MC 03/03/21	37
Fogging canisters for PTU minibuses		MC 03/03/21	36
<b>Timing differences 2020/21 funding</b>			
Discretionary business grants			1,171
Business grant admin			228
Education recovery		MC 30/06/21	2,508
Additional EHO			17
Clawback of double-funding for free school meals		N/A	88
<b>Other pandemic-related costs</b>			
Education recovery		MC 30/06/21	1,542
Loss of income (based on 2021/22 Q1 out-turn)	3.4		1,550
Increased call on Council Tax Reduction Scheme (based on 2020/21 out-turn)	3.4		300

	Para	Approved	£000s
Temporary ICT staff		MC 12/05/21	293
Early Learning and Childcare expansion	3.4		1,030
Hybrid committee meeting system		MC 30/06/21	70
Findochty harbour income		MC 30/06/21	17
Maintenance of automatic bollards on Elgin High Street			7
<b>TOTAL</b>			<b>10,128</b>

- 3.4 Loss of income and Council Tax Reduction will be kept under review. The recommendation to use covid reserves to meet £783,000 cost of expansion of Early Learning and Childcare (ELC) arises from the use of ELC specific grant to fund pandemic-related costs totalling £783,000 at an early stage during the pandemic. This consisted of £491,000 cost of community hubs, £256,000 grants to nursery providers and £36,000 on sanitiser, equipment and additional hours relating to pandemic measures. At that stage the level of funding announced by Scottish Government was considerably less than the estimated cost to the Council and as Scottish Government allowed use of the specific grant it seemed prudent to use some of the specific grant in that way. As additional funds for response to the pandemic have been allocated to the Council it would be appropriate to return funds to ELC and this will facilitate covering additional one-off costs incurred on ELC. The specific grant was based on the Council's own estimates of the cost of ELC expansion made well before the pandemic and as such would not be expected to absorb significant levels of pandemic-related spend. A further £247,000 additional expenditure on ELC, largely for additional cleaning, is anticipated in 2021/22, bringing the total ELC to £1,030,000. This would result in a balance on covid reserves of £6.3 million, with further covid related funding of £4.5 million anticipated in 2021/22.

### Short term financial planning

- 3.5 The revised three year budget position for 2021 to 2024 is included as **APPENDIX 1** to this report. The underlying position of the Council on 2021/22 remains that 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. This indicates that savings are required, however the Council has been making savings over the last 12 years and further savings will be difficult to find. The Council has taken a variety of approaches to generating savings – service reduction, service redesign, efficiency savings – and in recent years the focus has been on transformation of services through the Improvement and Modernisation Programme (IMP). The Council on 12 May 2021 set aside monies to fund transformation and approved use of £5 million, together with the establishment of a Programme Management Office (PMO) to deliver transformation over a three year period (paragraph 13 of the Minute refers). The opportunities given by the PMO to transform Council services must be maximised. In order to position the Council as a resilient organisation, well-equipped to deliver current and future national and local priorities, there is a need to take a holistic approach to financial planning, recognising the need to respond to a variety of economic, social and environmental factors, and re-shaping the Council to do so. A prudent

approach to the Council's finances coupled with additional funding for the pandemic has left us with significant funding in reserves but this funding can only be spent once so careful consideration needs to be given as to the most effective use of these funds.

- 3.6 In order to enable the Council to build back better, it is proposed that earmarked covid reserves are used to cover any residual budget shortfall in 2022/23. This would remove the need to deliver short-term savings and facilitate an emphasis on efficiencies through demand management, further developing and embedding preventative approaches, delivering transformation, and reshaping services to deliver priority outcomes including those identified in the Recovery and Renewal Strategic Framework which reflect changes brought about by the pandemic such as the need to address increased poverty, promote wellbeing and support a green recovery.
- 3.7 Heads of Service will be asked to identify any potential savings and known budget pressures. Budget pressures are not Council-driven growth but arise from external factors beyond the control of the Council. Budget pressures can arise from many different causes: changing legislative requirements, increased demand, contractual obligations, new government policies and priorities. Delivery of Council priorities can also create initially unforeseen cost pressures. The drivers for change for different services need to be recognised to assist onward planning.
- 3.8 Heads of Service will also be asked to identify opportunities for developing preventative approaches and demand management, and other transformation projects, building on the IMP approach and developing it further where possible but with greater weighting to the generation of savings. There may be lacunae in service delivery relating to emerging priorities such as Climate Change or Scottish Government priorities in the Programme for Government. Building on recommendations in the IMP report of 12 May 2021 (recommendation 2.4ii), there may also be service developments which would increase efficiency and / or resilience and Economic Growth, Housing and Environmental Sustainability Committee on 24 August 2021 approved that a small annual fund (£100,000) is set aside from free general reserves to be bid into, with continued funding at this level part of base budgets in future years (paragraph 6 of the Minute refers). From this scoping exercise high level proposals for change can be developed and costed for members' consideration as to how the Council should continue to reconfigure and adapt moving forwards.
- 3.9 For this approach to succeed it is important to recognise that this cannot be an exercise to reverse previous budget savings, because the world has changed. The exercise must be geared towards mapping out priorities, improving outcomes and reacting to current and anticipated challenges, all while working towards the reduction in revenue spending required for 2023/24 and beyond. To this end the exercise should be shaped by the current and emerging economic, social and environmental factors which impact on the delivery of Council services and as such, will form a platform for the next review of the Corporate Plan following the Local Government elections in May 2022.

## **Wider environment**

- 3.10 Issues which are likely to require consideration are the big ticket items of climate change, poverty, and the continued response to the pandemic and its aftermath. These reflect the Council's priorities and must be addressed. There are clear expectations as regards future service changes from Scottish Government, some enshrined in the current local government settlement, some in the Programme for Government. There is a convention that where local government is expected to deliver Scottish Government priorities that this should be fully funded. However, this is not always the case – mainstream Participatory Budgeting being a case in point – and funding when provided does not always match local needs, therefore a degree of vigilance is needed in planning for such initiatives. Where bid funding is made available there is often a tight time frame for applying for funding and for spending it, so a degree of horizon scanning and appropriate preparation should be planned. Forecasts of local demographic change need to be taken into account. Financial planning should sit within a wider planning framework, with parameters set by the Local Development Plan, the Climate Change Strategy and other relevant plans and policies.
- 3.11 This will take place in an environment of considerable uncertainty. Around half of the Council's revenue expenditure is on staff, and the pay award for 2021/22 has yet to be agreed. As the country moves beyond level zero, it is unclear how quickly the economy will recover and to what extent some businesses have been permanently damaged. The impact of the end of the furlough scheme is unknown. All of these will affect the ability for the public sector to raise funds, at UK, Scottish and local level. General inflation as measured by CPIH has been very low but recently has been rising. It is unclear what the underlying trend is. Construction industry inflation has been very high and the industry is currently overheated. Again long term trends are unclear. The Office for Budgetary Responsibility published its most recent review of risk in July 2021 and identifies the following as the three major current risks: the coronavirus pandemic, climate change and the cost of public debt. All these impact on the Council. The long-term impact of Brexit is unclear. However, these uncertainties should not preclude the Council moving towards a financial planning envelope which covers more than one year.
- 3.12 In recognition of this environment it is recommended that the Council earmark further funds for Council priorities and for transformation of services. The scheduled review of the Council's Reserves Policy is the subject of a further report to this meeting of Council and this recommends that the minimum level of free general reserves is retained at £5 million. The projected level of free general reserves as at 31 March 2022 is currently £13,816,000, £8,816,000 over the minimum level. It is recommended that £1,816,000 is ear-marked for the next stage of investment to transform services, recognising that there is usually a cost associated with transformation (eg training in new ways of working) but also that transformation associated with previous IMP projects has been limited as projects are still at an early stage. The balance of £7,000,000 is recommended to be ear-marked for Council priorities. Current projections of

expenditure on the Moray Growth Deal are for capital expenditure to outstrip grant funding during the early years of the Deal. The temporary shortfalls will be met by additional borrowing, which will be repaid in later years of the Deal when grant funding is forecast to exceed expenditure. It is recommended that £4 million is set aside for cash flow management over a five year period, with this balance being replenished during the second five years of the Deal. This amount will be refined and funds released if it is possible to re-profile funding and / or expenditure. It is recommended that £3,000,000 is ear-marked for the other Council priorities eg Climate Change Strategy, with a further report on the use of this money brought to Council in due course. In summary:

	£ million
Ear mark for transformation of Council services	1.8
Ear mark for Council priorities:	
Moray Growth Deal cash flow management	4
Other Council priorities (proposals to be developed)	3
Free general reserve	5
Total	13.8

### Timescales

- 3.13 The results of the scoping exercise described in paragraphs 3.7-3.9 will be collated and reported to Council in November, to facilitate more detailed proposals being brought to members prior to the budget for 2022/23 being discussed.
- 3.14 The capital plan is also being reviewed in detail and this process must be dove-tailed with the review of revenue. The results of the capital plan review will also be reported to Council in November.
- 3.15 The timescales anticipated are as in the table below:

Action	Timing
Officer review of 10 year capital plan	August – September 2021
Officer review of revenue budget as described in paragraph 3.7-3.9	September 2021
Collation of review results	Late September 2021
Report to Council	November 2021
More detailed proposals for revenue budget	January 2022
Three year revenue budget and 10 year capital plan reported to Council (1)	Late February / early March 2022

- (1) As in recent years the figures for years 2 onwards in the revenue budget and capital plan will be indicative.

- 3.16 The timescale for identifying IMP projects and budget pressures set out above is tight and it is anticipated that the process will not be a one-off but will be an iterative process, with calls for these being made on a quarterly basis for the next 18 months.

## **Urgent emerging pressure**

- 3.17 A situation has developed recently where the Council is required to step in and provide support services for an extremely vulnerable disabled young adult. There is a degree of urgency in resolving the situation and the Council has a statutory duty to do so. Suitable support has been identified and the full cost of the care package is estimated to be £181,000 pa. In the main this will be for additional Moray Council staff, although some of the support will be delivered by the current staffing cohort. It is proposed to recruit 4.36 fte support workers and 1.0 fte key worker. The proposed package has been discussed with the young person's family who are satisfied that this is an appropriate way forward for the person in question.

## **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 Council's free general reserves are forecast to be significantly above the agreed minimum level. Transformation of services will be necessary to create financial stability for the Council and there is likely to be a cost associated with transformation. The Council has agreed priorities in approving its Climate Change Strategy and agreeing that actions should be taken to ameliorate levels of poverty and budget will be required to advance these priorities. There will be costs associated with managing cash flow in Moray Growth Deal. In recognition of these factors ear-marking funding is recommended as part of the financial planning process. Use of covid related funding is also recommended, to fund covid-related expenditure and loss of income and to create a space to enable longer term transformation projects to be developed and implemented.

Given the lead-in time for recruitment it is anticipated that the maximum spend for the new care package in 2021/22 is likely to be £75,000 and it is proposed to fund this from reserves, with the balance of the full year package being included in financial planning for 2022/23 as a known budget pressure.

### **(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**

Additional 5.36 fte staff will be required for the new care package. There are no other 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) Consultations**

CMT and Heads of Service have been consulted in the preparation of this report and comments incorporated.

**5. CONCLUSION**

**5.1 The Council has an underlying requirement to make savings and the focus should be on transformation of services to reduce costs whilst still delivering services.**

**5.2 It would be prudent to ear-mark additional funding for Council priorities and transformation of services.**

**5.3 Use of funding from the covid ear-marked reserve will cover additional costs and loss of income in 2021/22 and facilitate balancing the budget in 2022/23, while new transformation plans are developed.**

**5.4 An urgent requirement for the delivery of support for a vulnerable disable young adult has been identified and additional in-year funding is required.**

Author of Report: Lorraine Paisey, Chief Financial Officer

Background Papers:

Ref: