



REPORT TO: MORAY COUNCIL ON 7 DECEMBER 2022

SUBJECT: SHORT TO MEDIUM TERM FINANCIAL PLANNING

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

1. REASON FOR REPORT

- 1.1 To consider updated budget projections and recommended budget savings.
- 1.2 This report is submitted to the Council in terms of the Council's Administrative Scheme section (III) (A) (2) relating to considering Capital and Revenue budgets and long term financial plans.

2. RECOMMENDATION

2.1 It is recommended that the Council notes:

- (i) The updated budget and estimated out-turn for 2022/23 and forecast positions for 2023/24 and 2024/25;
- (ii) That there are still significant uncertainties relating to the Council's budgetary position for 2022/23 and future years; and
- (iii) That inflationary pressure is worsening the projected short to medium term outlook and that there is therefore an increasing urgency to achieve budget reductions.

2.2 It is recommended that the Council approves:

- (i) the savings set out in paragraphs 4.2 to 4.5 and summarised in paragraph 4.7, totalling £117,000 recurring savings and £270,000 one-off savings; and
- (ii) One-off payment of £81,000 to Moray Leisure Limited to cover the cost of implementing the Scottish Living Wage in 2022/23.

3. BACKGROUND

- 3.1 The Council's revenue and capital budgets for 2022/23 were approved at a special meeting of Moray Council on 22 February 2022 (paragraph 4 of the Minute refers). At that time there was an environment of considerable

uncertainty about the state of the economy, due to the impact of the Covid-19 pandemic and Brexit and geo-political pressures, with rising inflation and bank rates increasing. The pay award for local government staff for 2022/23 was unknown and the teacher's pay award for 2021/22 still not agreed. An update was given to Council on 10 August 2022 (paragraph 16 of the Minute refers) and on 28 September 2022 (paragraph x of the Minute refers).

- 3.2 There is still considerable uncertainty regarding some key variables in the budget. In particular teachers' pay awards have not been agreed. However, the position regarding costs of electricity, gas and fuel oil has developed as was reported to Economic Development and Infrastructure Services Committee on 15 November 2022 (paragraph x of the minute refers). The annual energy strategy report included projections of cost for electricity and gas from Scottish Procurement and these have been used to calculate potential budget pressures for 2023/24 of £1.5 million and for 2024/25 of a further £0.9 million and these are included in the budget projections in **APPENDIX 1**. A further £537,000 has been added for contracts with inflationary uplifts in 2023/24.
- 3.3 The impact of taking a loans pool holiday in 2022/23 – one-off savings of £7.6 million, which adds to loans charges for the next 20 years as the holiday requires to be paid back in full over that period as a maximum – and of increased interest payments arising from the bank rate being increased are also included, with a full year effect budget pressure of £3.6 million in 2023/24.
- 3.4 The impact of additional funding of £2 million from Scottish Government to fund pay awards is included in the budget for 2022/23. The impact of the full range of savings discussed below is also included in **APPENDIX 1**.
- 3.5 **APPENDIX 1** has not been adjusted for potential cuts in funding from Scottish Government following the Spending Review planned for 15 December after the UK Autumn Statement nor for the warning from the Auditor General that Scottish Government might overspend in 2022/23 with potentially a clawback from UK Government in 2023/24. No adjustment has been made for the expected reduction in Early Learning and Childcare specific grant (as the quantum is not yet known). Inflation is now forecast to remain at higher levels until 2024 and that is likely to impact on future pay negotiations as well as on the cost of goods and services. There remains clear potential for the savings target to increase significantly from 2023/24 onwards and with reducing reserves and flexibilities exhausted, it is essential that momentum is not lost in identifying savings to remove the structural deficit and cover emerging budget pressures.
- 3.6 **APPENDIX 1** has been adjusted to show the impact of the first pass estimated actuals for 2022/23, which are the subject of another report on this agenda. After allowing for the impact of the loans pool holiday, the anticipated out-turn at this juncture is an underspend against budget of £4 million. Around £800,000 of that projected underspend is on staffing, reflecting difficulties in recruiting and retaining staff. Additional savings of £832,000 have been approved since the budget was set (£600,000 for one year only) and the part year effect of the removal of the 1.25% increase in National Insurance is a further saving of £152,000. Project slippage accounts for £1.7 million projected underspend and at least part of this will require funding in 2023/24. There is also money held

centrally as provision for budget pressures which have since then been separately funded by Scottish Government, and that makes up the balance of the underspend.

- 3.7 When the Short to Medium Term Financial Plan was last reported to Council on 28 September 2022, the forecast savings required over the period 2023/24 to 2024/25 was £24.6 million, with £3.7 million savings approved or recommended, leaving a balance of £20.9 million savings to be found. The forecast included in this report is for savings of £29.7 million required over that period, with £3.8 million savings approved or recommended, leaving a balance of £26.9 million to be found. The movement in savings required – an increase of £5.1 million from £24.6million to £29.7 million - is described in paragraphs 3.2 to 3.4 above and summarised below:

Additional costs / (savings)	2023/24 £000s	2024/25 £000s
Energy costs	1,544	866
Other inflation	537	247
Interest rates	3,600	
Loans pool holiday -repayment	379	
Additional grant baselined	(2,007)	
Savings recommended	(117)	
TOTAL	3,936	1,113

- 3.8 Moray Leisure Ltd have paid their staff at Moray Leisure Centre the Scottish Living Wage (SLW) since April 2022. The Council as an accredited Living Wage employer should be encouraging all its suppliers to be paying or moving towards payment of the Living Wage. The additional cost to Moray Leisure Ltd was £81,000 which can be met from central provisions in 2022/23 and it is recommended that a one-off payment of £81,000 is made to Moray Leisure Ltd and that discussions of future subsidies for Moray Leisure Centre include discussion of what provision is needed on a recurring basis to cover the cost of SLW.

4. BUDGET SAVINGS 2022/23 TO 2024/25

- 4.1 Council on 10 August 2022 (paragraph 16 of the Minute refers) approved a hierarchical approach to budget savings, with preference given to transformation of services, thereafter to income generation and finally to service reduction / cessation, recognising that given the scale of savings required there would be a requirement to reduce service provision
- 4.2 The draft budget is heavily reliant on use of reserves to balance, with a significant underlying deficit, and this is not a sustainable position for the Council to be in and is also highly risky, given the levels of uncertainty around teachers pay awards and the level of funding from Scottish Government. Projected savings in 2022/23 from the Improvement and Modernisation Programme are highlighted in the Revenue Budget Monitoring report, which is a separate report on this agenda, as Amber ie there is significant doubt that they

will be achieved during this financial year. That points towards an early emphasis on income generation to minimise service reduction / cessation.

Income generation

- 4.3 Charges for Council services were frozen in 2022/23 and are being reviewed for 2023/24. A comprehensive review of charges will be brought to Council early in the new year. However, one charge is brought for early consideration. It is proposed that the charge levied for the garden waste permit, currently £40 pa, is increased to £44 pa. Like other charges, this did not increase from 2021/22 to 2022/23. The collection of green waste is not a requirement on local authorities, and there are a variety of arrangements in place across Scotland, with a significant number of authorities not actually providing a collection service for green waste, instead requiring households to either compost at home or take their green waste to waste and recycling centres. Since the introduction of a permit for green waste collection there has been a year on year increase in the number of permits purchased. Based on a target of 22,215 sales for 2023/24, a charge of £44 would generate income of £977,460 which is equivalent to a budget saving of £97,460.
- 4.4 Currently the charge is a one-off charge before the start of the financial year. It would be possible to offer the option of paying in two instalments of £22, one in February, one in March, to enable households to spread the cost. Given the timescales of implementing instalment payments, a decision on the brown bin permit is required at this meeting. If the decision is deferred to a future meeting there would be insufficient time to implement payment by instalment. In the future it may be possible to alter the start date of the permits to a later point in the year, allowing greater flexibility in considering payment options, but this requires further development and would have potential financial consequences that have not yet been fully appraised.

Further savings

- 4.5 As part of the Council's Climate Change response officers have been investigating the feasibility of salary sacrifice scheme for electric or ultra-low emission cars. Participants in a salary sacrifice scheme must maintain their residual salary at at least the minimum wage, and that requirement given the price of electric cars would debar over half the workforce from the opportunity to benefit for the scheme. The inclusion of ultra-low emission cars in the scheme would widen the potential membership. Based on a nearby authority which has been running such a scheme for 10 years the savings which might be anticipated in the first year of operation have been estimated at £20,000. These savings accrue from savings in employers National Insurance. The employee benefits from savings in tax and employees National Insurance. Increased uptake of electric or ultra-low emission vehicles would contribute towards the Council's Climate Change Strategy.
- 4.6 The Council budgets for savings from vacancies and staff appointed at less than top of the scale to recognise the impact of staff turnover on expenditure. Teaching vacancies are not covered by a similar vacancy factor and savings are carried forward under the Devolved School Management (DSM) scheme or used in year to augment the refurbishment element of the DSM budget or to fund other supporting staff posts. A one year saving from vacancies is proposed to be implemented in 2022/23. It is difficult to estimate the level of

savings this would generate, as the last 2 years have been very atypical in terms of school staffing, with additional covid funding and the restrictions of the pandemic. A saving of £270,000 is estimated as a conservative indication and is included in **APPENDIX 1**. The saving is offered for one year only as reduced class contact time is to be introduced in 2023/24 and this will reduce flexibility for school staffing.

4.7 An Equality Impact Assessment for the proposal at paragraphs 4.4 is included as **APPENDIX 2** to this report.

4.8 In summary, the following savings, totalling £117,000 recurring savings and £270,000 one-off savings, are recommended:

	Para	Ref *	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s
Garden waste permits	4.2	D4-3		97		
Salary sacrifice	4.3	F4-3		20		
Teacher vacant posts	4.4	A2 3-2	270			
TOTAL			270	117		
Recurring savings				117		

* Members' use – library reference

5. **SUMMARY OF IMPLICATIONS**

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

Financial Planning is integral to the Council's overall planning processes and allows the Council to direct resources to its agreed priorities which include financial sustainability.

(b) **Policy and Legal**

The Council is required by statute to set a balanced budget before the start of the financial year. The requirement is set out in the Local Government Finance Act 1992 (section 93).

(c) **Financial implications**

The Council has an underlying structural deficit which will be met from reserves in 2022/23 but this cannot continue as reserves are finite and earmarked reserves for transformation and priorities will be essential to enable the council to flex and adapt and respond to climate change and other priorities. A continued and heightened budget gap is forecast for 2023/24 and 2024/25.

Early action to tackle the projected funding gap for 2023/24 and 2024/25 is therefore required. A further £117,000 recurring savings and £270,000 one-off savings are proposed. There are considerable uncertainties regarding a number of potential budget pressures and inflation is now projected to continue at a high level for longer than was previously

forecast. To achieve financial stability and sustainability the creation of further non-essential budget pressures must be avoided.

(d) Risk Implications

The forecast deficits for 2023/24 and 2024/25 represent a significant risk to the Council. There is also a risk that the deficits are understated. Recent reviews have increased forecast costs.

(e) Staffing Implications

There are no staffing implications arising directly from this report, although the proposed salary sacrifice scheme will potentially increase the range of benefits on offer to employees.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

Any savings proposal with an equalities impact will be subject to an Equalities Impact Assessment (EIA). The EIA for the salary sacrifice scheme is included as **APPENDIX 2** to this report and the Equal Opportunities Officer has advised that a EIA is not required for the proposed increase to the charge for the garden waste permit.

(h) Climate Change and Biodiversity Impacts

There are no implications for biodiversity arising directly from this report. The salary sacrifice scheme is an opportunity to contribute towards the Council's Climate Change plans.

(i) Consultations

CMT and Heads of Service have been fully involved in the preparation of proposed savings and Political Group Leaders has been consulted.

6. CONCLUSION

6.1 There are considerable uncertainties regarding the Council's budgetary position in 2022/23 and beyond, however the underlying position is an increasing deficit, funded by use of ear-marked reserves to balance. Further savings are therefore required and proposed recurring savings of £117,000 are set out in this report, with additional one-off savings of £270,000.

6.2 The first estimated out-turn for 2022/23 is an underspend, partly generated by the use of one-off financial flexibility, and that reduces the forecast need to use reserves in 2022/23. While this would free an element of reserves, these are not a sustainable way to address an increasing deficit: reserves are finite and non-recurring, and so while they can buy time, this comes at a cost as they simply serve to increase the savings burden in future years when applied to recurring costs. Looking ahead to a projected gap of over £15m in 2024/25, a gap which may grow still further, every effort should be made to identify savings as early as possible and reduce reliance on reserves.

Author of Report:	Lorraine Paisey, Chief Financial Officer
Background Papers:	Political Group Leaders agenda papers
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