



REPORT TO: MORAY COUNCIL ON 2 SEPTEMBER 2020

SUBJECT: SHORT 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 2020/21 and 2021/22.
- 1.2 To consider the approach to development of proposals to reduce the budget pressure in 2020/21 and budget gap in 2021/22.
- 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 2020/21 and 2021/22 as a result of the COVID-19 pandemic;
 - (ii) Notes the requirement to deliver savings in 2021/22;
 - (iii) Notes that a further update on the financial impact of the pandemic will be brought to the meeting of Council on 25 November 2020; and
 - (iv) Agrees that the focus in 2020/21 should be on the potential to redesign services during service recovery.

3. BACKGROUND

- 3.1 When the budget for 2020/21 was set, the Council planned to balance its budget by using £2.3 million free general reserves after making savings of £3.1 million. The projected budget gap for 2021/22 was £6.9 million. Since then the COVID-19 pandemic has seen significant unplanned impact on the Council's finances and the short-term position falls to be reviewed with a view to (a) recovering the position for 2020/21 as much as possible in the time available and (b) starting to work towards balancing the budget for 2021/22,

based on the approach outlined to the Emergency Cabinet on 1 July 2020 (paragraph 11 of the minute refers).

Latest Financial Position

- 3.2 The first estimate of the full year effect of the pandemic was reported to the Emergency Cabinet in the same report referred to in paragraph 3.1. At that stage the net impact was estimated as a shortfall of £5.5 million. Since then further costs have been identified. These are listed below, summarised in the table at paragraph 3.5 and a full update included as APPENDIX 1 to this report.

Cost of recovery of services

- 3.3 There were no estimates of the cost of recovery of services at the beginning of July and so the original estimated impact was known to be understated. Since then estimated costs of additional cleaning to allow the council's corporate buildings to re-open have been developed, and are estimated at £142,000 full year effect. These costs are likely to be recurring into at least 2021/22. Additional costs associated with schools re-opening have also been developed and these are estimated at £400,000 full year effect. The Council has incurred one-off costs associated with the blended learning model – estimated to be in the order of £100,000. The requirement for social distancing impacts on the cost of delivery of school meals. For the first four weeks of the new school term a sandwich lunch option is being provided with additional costs to the Council associated with (eco-friendly) packaging and grab-bags for individual delivery. This is estimated as an additional weekly cost of £11,000 per week. Delivery will be reviewed after that period with a view to reverting to the normal options for a hot meal if possible and no additional costs beyond the initial four week period are included below. A further one-off cost of £13,000 arises from the early opening of schools per Scottish Government timetable. Scottish Government have announced additional funding for schools re-opening. The bulk of this is ring-fenced and can only be used for additional teaching and support staff. The first tranche of this funding to be announced had £562,000 in 2020/21 and £294,000 in 2021/22 for the Council. The grant letter indicated an element of flexibility to use this funding for other purposes if the Council is unable to employ additional staff with costs up to the full amount of the grant. However any such use must be agreed with Scottish Government. The table below does not assume any flexibility to cover cleaning and catering costs. The method of distribution of the further funding which is expected (which can be used to cover the cost of additional cleaning and other non-teaching costs of opening) has not yet been announced and an estimate has been included in the table below described as flexible funding. Further costs of recovery of services are still emerging.

Updated costs of lockdown

- 3.4 Additional costs of £300,000 for running the Hubs have been incurred, as has £46,000 for homeless accommodation. Income from car parking charges had been assumed to accrue from the beginning of August. This has been modified to reflect the Council's decision to pause charging until the review in

October. Scottish Government has indicated that the Council has an element of flexibility to use the ring-fenced grants (revenue and capital) for Early Learning and Childcare to fund support for children during lockdown. Work is on-going to estimate what the level of flexibility might be. The Council is negotiating with contractors on some capital projects as to the level of supplier relief appropriate under contract to support them during lockdown so as to ensure they are able to promptly start construction work when lockdown was eased. Negotiations are still taking place but interim payments are being made. It has been assumed that these costs will be capitalised and an estimate of the additional loans charges due included and this will impact on the flexibility remaining. Further work is being carried out to refine the estimated impact of reduced capital spend due to lockdown on the staff costs charged to capital and indications are that the £1.6 million included in the original estimate reported on 1 July 2020 is significantly underestimated, although the picture remains unclear. A further £1 million is included as a likely additional cost to revenue. This figure could still increase.

3.5 The current estimated out-turn position is summarised below:

	£000s
First estimate net spend on pandemic, as reported to Emergency Cabinet on 1 July 2020	5,495
Estimated costs of recovery	
Cleaning (eight months)	
Corporate buildings	95
Schools	265
Blended learning costs incurred	100
Additional cost of school meals four weeks)	57
Estimate of flexible funding (£20m, assumed to be spread across the academic year and distributed on pupil numbers)	(230)
Additional costs of response:	
Staffing at hubs	300
Homeless accommodation	46
Supplier relief (capital projects)	100
Increased impact of capital slippage on staff costs capitalised	1,000
Further lost income	210
Revised estimate net spend	7,433

3.6 Not all funding for the pandemic which has been allocated to local government by Scottish Government has been distributed. As mentioned in paragraph 3.3 funding for Education recovery has been announced but not all has been distributed. There are indications that Scottish Government is planning a scheme to fund local government for loss of income, using Barnett consequential from the scheme developed by UK government for English local authorities. The scheme in England is restricted to non-commercial income, ALEOs are excluded, and the scheme aims to compensate for 75% of losses after the first 5%, which is to be borne by the local authority. COSLA have asked Scottish Councils to estimate loss of income for 2020/21 to scope the issue. As noted on **APPENDIX 4** the current estimate of lost income for the year from fees and charges is £1,022,000. This will be further refined as recovery progresses. One tranche of additional funding for the Scottish

Welfare Fund (SWF) has been allocated and distributed, a further tranche is awaited. No funding is included in the summary above as it is assumed that all funding will be retained within SWF and that SWF will be managed within budget. Funding for Council Tax Reduction was announced in March 2020 but not allocated or distributed and as yet there are no indications of how that funding will be allocated. Consequently no impact of that potential funding is included above. One tranche of funding for local social care mobilisation plans has been allocated to Health Boards to be passed to local authorities, a further tranche has been announced but not allocated. No costs of social care are included in the above summary as these have been separately reported to Scottish Government along with health costs. It has been assumed that all additional costs of health and social care will be fully funded by Scottish Government. There is also capital funding. This will not impact on the revenue costs summarised above.

- 3.7 Unless in-year savings can be generated or further government funding is received or other concessions made by UK Government or Scottish Government as requested by COSLA (such as interest payment holidays on loans charges), this sum will fall to be funded from free general reserves. Free general reserves are held to enable the Council to cope with unplanned calls for expenditure, and as such the use of reserves for an emergency such as the pandemic is appropriate. However, the Council has to be careful not to erode its ability to cope with a further emergency in 2021/22. For that reason the policy minimum of £5 million free general reserves should still be adhered to if at all possible. The current position can be summarised as below:

	£000s	£000s
Balance on free reserves @ 31 March 2020		14,639
Approved to balance budget 3 March 2020	(2,348)	
Approved to fund from reserves 12 August 2020	(437)	
Adjusted for BRIS retention	1,859	(926)
Pre-pandemic projection of free reserves @ 31 March 2021		13,713
Current estimate net spend on pandemic		(7,433)
Estimated free reserves @31 March 2021		6,280

- 3.8 The Council benefited in 2019/20 from Non Domestic Rates Income (NDRI) retained under the Business Rates Incentivisation Scheme (BRIS). This was the first of a three year period and the scheme allows retention across that period. So the Council will be able to retain £1.859 million NDRI under BRIS in 2020/21 and 2021/22. This is a considerable benefit in terms of easing budget pressure in the short term.
- 3.9 It can be seen from the emerging information above that while it should be recognised that an ability to weather the remainder of 2020/21 and emerge with reserves at near the policy minimum would represent a positive milestone which some other councils suggest they will not achieve, this reduces the flexibility which the Council has in 2021/22 to augment budget savings with

use of reserves to balance the budget. It also reinforces the need to achieve additional in-year savings in 2020/21 wherever possible. Although the savings originally estimated as required in 2021/22 of £6.9m can be reduced by BRIS retention (albeit that this is a temporary saving which will require to be met by further savings in future years), additional savings will be required to cover covid costs and this presents an immense challenge given demands around covid recovery, possible second waves, Brexit etc, Nonetheless, given the uncertainties highlighted above, reliance cannot be placed on government funding and flexibilities alone and the council is still required to ensure that every effort is being made to narrow that gap, currently estimated at £5.3 million (see paragraph 3.19). It should also be noted that the Council would be liable to pay a share of any overspend from Moray Integration Joint Board (MIJB). MIJB overspent on services in the last two financial years. The response to the pandemic has clearly had a significant impact on MIJB. Current indications from Scottish Government are that the costs of mobilisation to deal with the pandemic will be met in full. There is however always a risk that there will be additional cost which fall to be met by the MIJB partners of NHS Grampian and Moray Council. It is not possible to quantify that risk. Current estimated costs of mobilisation are £7 million but this does not include supplier relief.

SHORT TERM MEASURES TO REDUCE BUDGET SHORTFALL

3.10 Over the last two years the Council's short term strategy has been to reduce the underlying over-commitment in the budget – evidenced by planned use of reserves – by a combination of the following:

- Income generation
- savings from efficiencies
- review of capital plan
- service re-design: tailor, target, stop
- workforce management
- procurement
- working with local communities.

The potential for these to be used to generate savings in the short term is discussed in the ensuing paragraphs.

3.11 Income generation

The Council generates income from Council Tax and from charges for services. There is only one opportunity to set Council Tax for the year and a review of Council Tax rates for 2020/21 is not an option even had the Council not increased rates by the maximum allowed by Scottish Government. Given the impact of covid 19 on the tourism industry, a Transient Visitor Levy is no longer a feasible income-generating option in the short term. The Council also planned to explore generating income through sponsorship and increased commercialisation of Council services. Work on this was paused due to the pandemic. Although a practical long-term goal, this is unlikely to be a material part of a short term solution given the current trading environment. The Council should however consider whether an increase of charges for services in year and above inflation for 2021/22 would be a reasonable step to take in reducing the budget gap. The “inflationary” increase in charges approved for

2020/21 was anticipated to generate additional income of £47,000, so this is unlikely to generate significant savings particularly given the impact of the recently declared recession on spending but should not be rejected as an option on those grounds as cumulatively small savings can generate a significant amount. Although the Council's Charging Policy stipulates an annual review of charges, it is possible for the Council to review charges more often and an option for the Council to make savings in the short term would be to increase charges again during 2020/21. This option is not recommended however, for a number of reasons: even if successful, a relatively small amount would be generated, given that it would be November before a revised set of charges could be presented for approval; many of the Council's income-generating activities are paused and are likely to be re-opened with restrictions in terms of social distancing, further depressing the likely impact of increased charges; increasing charges can have the side-effect of decreasing uptake of services, and the timing of increasing charges as furlough comes to an end and the impact on the local economy and jobs is yet unclear would not be good timing. Delaying a review of charges until 2021/22 gives an opportunity to reflect on the changed landscape for service delivery and to establish what the impact of the pandemic is on the local economy immediately post-lockdown.

3.12 Savings from efficiencies

Generally speaking efficiency savings require some investment in terms of time and – typically – technology. Services should review their recovery plans to ensure any efficiencies which can be generated from new ways of working during lockdown are captured. It is unlikely that any other efficiencies will be captured in the short term

3.13 Review of the capital plan

Capital expenditure is funded in part by borrowing, which impacts on revenue expenditure by way of loans charges. There is relatively little scope to make significant savings in the short term by reviewing the capital plan which, by its nature, has relatively lengthy lead-in times for most capital projects Loans charges are also typically spread over a significant period of time, lessening the impact in one year of any reduction in spend. The converse of this is that additional capital expenditure has less impact on revenue than increased directly funded revenue spend. There is therefore scope for the Council to stimulate the local economy through capital projects in a more affordable fashion than by increasing revenue spend.

3.14 Service redesign

This is the area which gives most scope in the short term to generate savings. Some services have been stood down during lockdown and active consideration should be given as to how quickly these should be returned and in what format. Services which have already been recovered must also be considered. This will require a full review of service delivery arrangements by reference to both scope and standards. Examples where changes may be possible include customer services and libraries, with digital services having played a major part in response in both these areas and also pool car management given more staff will be working from home and more meetings will be virtual. The impact of digital services is already part of the Council's Improvement and Modernisation Programme (IMP) and will be considered in

that context. Experiences of service delivery during the pandemic should be used wherever possible to prompt consideration of action which can be taken now to facilitate potential service transformation in early course.

3.15 Workforce management

The known process of vacancy management before recruitment has been reinstated as a control mechanism to ensure only necessary recruitment takes place. The Council allows a factor in its budget for underspend resulting from staff turnover and it may be that that factor can be increased for 2021/22 to assist in balancing the budget.

3.16 Procurement

The Council has generated significant savings through prudent procurement. It is unclear what scope there will be to generate further savings in the short term, particularly as supply chains continue to be stretched and in many areas increased prices can be expected as businesses pass on the cost of social distancing to their customers.

3.17 Working with local communities

Processes such as Community Asset transfer (CAT) can both generate savings for the Council and preserve amenities for local communities. During lockdown the Council has continued to see interest expressed in CAT by community groups. However, this is not a quick process and is unlikely to generate in-year savings.

3.18 Savings 2020/21

Given the above options it is recommended that members instruct officers to:

- incorporate consideration of service redesign including scope, standards and phasing into recovery plans
- review service scope and standards as part of redesign in recovered services where this would generate savings
- identify any other savings options (bearing in mind that following many years of savings there is unlikely to be many obvious quick wins)

In order for this to have the most immediate impact the results of this should be reported to Council on 25 November 2020 as part of a financial update on the cost of recovery and the implications for the 2021/22 budget.

Complementary to this approach to identify savings which can be quickly achieved but have potential to generate recurring savings in future years, the Council will also take the customary steps to reduce or remove avoidable spend in the short term. As mentioned in paragraph 3.15, vacancy management has been re-introduced. Budget managers have also been asked to ensure that they restrict purchase of goods and services to that which is strictly necessary. This measure will require to be modified by consideration of how the Council's procurement of goods and services can help local economic recovery.

3.19 Savings 2021/22

As noted in paragraph 3.1, the estimated budget gap for 2021/22 when the budget for 2020/21 was set was £6.9 million. It is unlikely that the Council will have significant free reserves to contribute towards that gap and so the main

vehicle for setting a balanced budget will be savings. As noted in paragraph 3.8 the Council will benefit from BRIS retention for the final year in 2021/22. There is a strong likelihood that additional costs relating to building cleaning will continue and therefore the base budget for 2021/22 has been adjusted to include these. The current estimated budget gap is set out below:

	£000s
Budget gap for 2021/22 estimated when budget for 2020/21 set	6,824
BRIS retention 2021/22	(1,859)
Full year costs of additional building cleaning	452
Estimate of grant relating to schools (4 months)	(115)
NDR savings from revaluation appeals	(37)
Current estimate of budget gap	5,295

- 3.20 The options set out in paragraph 3.10 and particularly those identified in paragraph 3.18 as most likely to generate savings in the short term should be pursued. However, looking to the longer term the Council will be unable to rely on cumulative small scale savings from minor adjustments to services and after ten years of savings has little truly discretionary spend to remove. Going into preparation for the 2021/22 budget the Council must increasingly focus on transformation of service delivery. This is being progressed through the IMP. The pandemic lockdown impacted on the delivery of IMP and will continue to do so, with flexible working and the use of technological solutions for staff and the public accelerated and social distancing altering the solutions possible from the Property Asset Management Review, at least in the short term. A report on progress on the IMP and the way forward will be given to future meetings of the Education, Communities and Organisational Development, on 23 September 2020 with a view to a revised IMP being presented to the Committee on 18 November 2020. It is hoped that more detail on government funding will be available by that date. Thereafter the Council's approach to transformation will again inform the financial planning process. Significant savings are needed from transformation but it is not currently clear the extent to which IMP as presently framed can deliver these at the level required and estimation of this will form part of the review of the programme. The Council has set aside ear-marked reserves of £3,581,000 to invest in transformation and corporate priorities. This was a prudent step and is all the more pertinent given that the planned use of capital receipts originally budgeted at as £2,000,000 in 2020/21 will be seriously compromised by a six month period in which few property transactions were possible due to lockdown restrictions and also due to the anticipated impact of the pandemic on the property market. The Council has capital receipts of £1.182 million held in reserve which could be used in 2020/21 or 2021/22 to fund transformation. Savings from the proposed transformation must be agree as deliverable before use of capital receipts can be approved. Service redesign as described in paragraph 3.14 could create a springboard to facilitate early transformation of service delivery and if so this opportunity should be taken.
- 3.21 The revised three year budget position for 2020 to 2023 is included as **APPENDIX 1** to this report. A preliminary re-assessment of the savings approved for 2020/21 when the budget was set is included as **APPENDIX 2** to this report. The centrally held provisions approved have also been reviewed

and this review is included as **APPENDIX 3** to this report. As can be seen from the preliminary reviews of savings and provisions there is considerable uncertainty regarding the achievement of savings and the timing of release of provisions. These will be kept under review and the opening position for 2021/22 adjusted as necessary when the estimated out-turn for the year is reported to the Economic Growth, Housing and Environmental Sustainability Committee on 1 December 2020.

3.22 **Wider environment**

There has been considerable rhetoric from politicians at the national level, both at Westminster and Holyrood, about avoiding a return to austerity both before the pandemic and as we start to move through the recovery stages. However, recent views expressed by the Institute of Fiscal Studies and other bodies tend to suggest that this is a political aspiration rather than a financially realistic option. The Chancellor's autumn statement will give the first guide as to what might be expected in terms of available government support for the public sector. In the meantime it would be prudent to expect a continuation of austerity.

3.23 **Housing Revenue Account**

The response to the pandemic will impact on the Housing Revenue Account (HRA) and a separate report on this will be prepared and presented to members. The HRA is ring-fenced and therefore as a general rule is independent of the Council's General Fund. However, there are costs budgeted for within the General Fund to be recharged to the HRA. The most significant of these are the Council's Building Services DLO. Current advice from Audit Scotland is that such costs should continue to be charged to the HRA irrespective of whether the services have been affected by lockdown. If the situation changes and costs budgeted for within the HRA have to be absorbed by General Services then additional costs in excess of £1.5 million would fall to be met.

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 response to the COVID-19 pandemic has placed considerable strain on the Council's finances and is likely to continue to have an adverse effect at least into 2021/2. It is therefore important that the Council starts to contain expenditure across its services as they are in recovery mode, looking to achieve savings in 2020/21 where possible and to meet the estimated budget gap in 2021/22 from savings.

(d) Risk Implications

There are many risks inherent in financial planning. The main risk which the Council faces at present is an inability to balance the budget in 2021/22 if savings are not made in early course and transformation of services moved forward at pace.

(e) Staffing Implications

None arising directly from this report.

(f) Property

None arising directly from this report.

(g) Equalities/Socio Economic Impact

All potential savings identified as a result of the recommended reviews require an Equalities Impact Assessment.

(h) Consultations

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

5. CONCLUSION

5.1 The significant and increasing costs of the pandemic require prompt action to contain expenditure in 2020/21.

5.2 The budget gap in 2021/22 will require to be met from savings.

5.3 Short term savings could be generated from increased charges; service redesign both during and after recovery including reviewing service standards, scope and recovery phasing to manage resources and deliver savings.

5.4 Longer term the Council needs to look for savings from transformation. Work needs to re-commence on this as soon as possible. Changes arising from the pandemic may give opportunities to identify areas for early transformational change.

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Background Papers:

Ref: