



REPORT TO: MORAY COUNCIL ON 20 JANUARY 2021

SUBJECT: FINANCIAL PLANNING

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

1. REASON FOR REPORT

1.1 To update the Council's projected financial position for 2021/22 to 2023/24 and to request early consideration of two potential recurring savings.

1.2 This report is submitted to Council in terms of Section III (A) (2) of the Council's Scheme of Administration relating to considering Capital and Revenue budgets and long-term financial plans.

2. RECOMMENDATION

2.1 It is recommended that the Council approves:

- (i) Retaining three weekly household recycling collections, generating an annual budget saving of £129,000 as set out in paragraphs 3.11 and 3.12 of this report;**
- (ii) Increasing the annual charge for household green waste permits from £40 to £41; and**
- (iii) Remitting to Moray Leisure Ltd the sum of £73,000, which is the component of the funding the Council has been notified it will receive in respect of lost income for the first six months of 2019/20 which relates to Moray Leisure Centre.**

2.2 It is recommended that the Council notes:

- (i) The continuing high level of uncertainty regarding key financial planning assumptions;**
- (ii) The sensitivity of the Council's budget to these uncertainties;**
- (iii) The recent pay claim for SJC staff;**

- (iv) **The emerging position regarding financial flexibilities in 2021/22; and**
- (v) **The projected current budgetary position in the short to medium term.**

3. BACKGROUND

Revised budgetary projections

- 3.1 As reported to Council on 16 December 2020 (paragraph 7 of the draft Minute refers), current costs of borrowing are low and projected to remain low in the short to medium term. The estimated impact of this reduction in interest rates is included in this update of the projected budgetary position. The loan pool rate when the budget was set in March 2020 was 4.1902%. The current projected rate for 2020/21 as developed for the estimated actuals is 3.813%. On a budget for loan interest of £7.3 million this reduction is clearly significant. Revised guidance on accounting for the loans pool come into effect in 2021/22 and this enables the Council to defer the first principal repayment of a loan into the year following the year the asset comes into use. The joint impact of these changes is a projected reduction in loan charges in 2021/22 of £1,500,000, £1,200,000 more than projected when the budget for 2020/21 was set.
- 3.2 Wages and salaries, including oncosts, comprise over half of the Council's net revenue budget for General Services. The rate of pay award for 2021/22 is unknown. It was originally budgeted for as 2%, which was seen as an optimistic forecast, being equivalent to the Treasury target for inflation. During the pandemic inflation has been erratic but generally very low. Although the treasury target remains at 2% the Office of Budgetary responsibility are forecasting that in the short term inflation will remain below that level. The projected budget includes provision for a 2% increase. In the light of current inflation forecasts, this might have been considered to be the central case. However, the SJC pay claim received by COSLA on 16 December casts doubt on that.
- 3.3 The pay claim is detailed and complex and is the first step in what will be an iterative process. The claim is for a one year settlement and includes the following points: a flat rate increase of £2,000 or 6%, whichever is the greater, for all spinal points; an underpinning minimum rate of £10.50 per hour; additionally an increase to partially redress previous under-inflation settlements; a pro rata uprating of all allowances. The impact of this is difficult to assess and at this early stage in the process detailed pay modelling has not been undertaken. However, a 3% increase in SJC staff is estimated at £2.4 million so the pay claim as stated would represent an increase in the SJC pay bill of in excess of £5 million. The current provisional budget includes provision of £1.6 million for SJC staff.
- 3.4 Budget pressures are monitored during the year and adjusted for as circumstances change and events crystallise the need for additional expenditure. Budget pressures for 2021/22 are now noted as £3.2 million (£2

million in March 2020). £1.2 million of the increase relates to the ongoing impact of COVID-19. Scottish Government has granted local authorities financial flexibilities to facilitate response to the pandemic. As guidance is issued it has become clear that exercising the flexibilities will be limited to actual costs incurred. This is discussed in paragraph 3.16 of this report. Budget pressures are listed in **APPENDIX 2** to this report.

- 3.5 Based on the current estimate of capital receipts held and likely to be generated before March 2022, the potential to invest in change has been increased from £400,000 to £1,500,000, fully funded from capital receipts. Such investment must be forecast to generate savings before capital receipts can be used.
- 3.6 The level of grant funding from Scottish Government was originally assumed to be flat cash. This is not a sustainable level of funding. The recent UK spending review resulted in consequential cuts for the devolved administration and the current assumptions used for funding is for a 1% increase in core funding (ie not including new burdens or COVID-19 related funding). However, given current economic uncertainties this might be considered to be optimistic.
- 3.7 Projected Council Tax income has been adjusted to reflect a lower collection rate than originally budgeted for, as the economy continues to suffer from the pandemic, and a higher rate of Council Tax Reduction, matching the current level. A real increase of 3%, in line with the last two years capped limit, was estimated as a nominal 4% increase. Inflation has been fluctuating considerably over the course of the pandemic. The most recent inflation measures show significant decreases: CPIH was 0.6% in November 2020 compared to 0.9% in October 2020 and CPI 0.3% in November 2020 compared to 0.7% in October 2020. The measure of inflation used to calculate the Council Tax cap has been GDP deflator, which tends to be lower than CPI measures. Accordingly it is considered prudent to reduce the likely increase in Council Tax to a nominal 3%.
- 3.8 An estimate of recurring savings from Children's Services are included in the summary at **APPENDIX 1** in other savings proposed.
- 3.9 The net result of these changes is that the projected budget gap for 2021/22 is reduced from £7.7 million to £4.3 million, with a proposed release from earmarked reserves for repairs and maintenance of £0.7 million, resulting in a savings target of £3.6 million, of which £1.7 million potential savings have been agreed or otherwise identified and a further £217,000 proposed in this report. There is scope to meet the bulk of the balance of £1.6 million from flexibilities relating to the pandemic.
- 3.10 The main risks to this forecast are considered to be pay award and level of government grant. The cost of salaries varies by £1 million for every 0.65% change; the level of grant forecast varies by £1 million for every 0.61% change. The forecast is therefore very sensitive to small movements in these key variables. The recently submitted pay claim is significantly in excess of that allowed for in the draft budget. This will be updated as pay negotiations progress.

Savings

- 3.11 In recent years the Council has considered savings in advance of the budget setting meeting, particularly when early consideration would facilitate consultation or other requirements for action prior to savings being realised. There are two proposed savings related to Waste Management which require early consideration and decision, one to implement the savings if agreed, the other to revert to pre-pandemic routine if the saving is not approved.
- 3.12 The brown bin permit charge was introduced in April 2019 at a starting rate of £36.00 which was increased to £40.00 with effect from 1 April 2020. In 2019/20 the Council achieved an income of £734,832 from 20,412 permit sales at £36.00 per permit. In 2020/21 income at £40.00 per unit is currently £866,175 and had exceeded the budget of £773,000 by the end of May. Whilst there has been a notable increase in permit sales over the first six month period in 2020/21 compared to 2019/20 consideration must be given to the influence of the pandemic and subsequent temporary closure of the Council's Household Waste Recycling Centres, which may have increased permit sales. For the purpose of predicting annual sales a target figure of 21,000 permits has been used. Retaining a price of £40.00 would generate £840,000 or £67,000 above the current budget. Following the default rise of 2% would increase the cost of a permit to £40.80, which would be rounded to £41 and generate income of £861,000 or £88,000 above current budget.
- 3.13 Kerbside recycling collections were introduced in Moray on a fortnightly basis in 2004. The service was delivered on that basis until collections were suspended on 30 March 2020 for 3 weeks, due to restrictions imposed in the light of the pandemic. From 20 April collections were reinstated but given the restrictions required to ensure social distancing the service was delivered on a three-weekly schedule and that has continued to date. Retaining the revised collection schedule offers the opportunity for the Council to reduce revenue expenditure by £128,900 through the removal of one refuse collection vehicle and a driver plus 2 loaders from the staffing complement. This will be achieved by not filling current vacancies.
- 3.14 The recovery survey carried out indicated that the three weekly cycle has caused problems for some households although some were unaffected by this and some supportive of its retention) and in mitigation of this larger recycling bins (blue and purple) or additional bins can be supplied to compensate for the reduction in frequency of collection. The capital budget for next year has an annual allowance to deliver 450 x 5 new bins, (issue for new housing which are charged at cost) and 350 x 2 larger (blue and purple) bins (240lt) which can be offered on a first come first serve basis to requests for larger blue and/or purple bins, thereafter requests will go onto a waiting list. The 140lt bins that are returned can be redistributed depending on condition as additional bins to those on the waiting list. It should be noted that there is a preference to issue one larger 240lt rather than two 140lt as this avoids additional handling by the loaders. In the 7 months following the introduction of the 3 weekly collection the Council had requests for the larger 240lt bins: 155 purple (plastics and cans) bins and 115 blue (cardboard and paper) bins. Given that there is provision within the capital budget for 2021/22 for 350 bins

each then based on the current demand there should be sufficient stock available. However this service will be under constant review to assess the impact of the routes and size of waiting list and be reported back to Committee if necessary to change the policy or increase the expenditure for new bins.

Funding for loss of income during the pandemic

- 3.15 Scottish Government announced funding of £90 million to compensate Council's and Arms Length External Organisations (ALEOs). All local authorities submitted information of loss of income from lockdown to 30 September 2020 and these submissions were reviewed and moderated to ensure consistency across authorities by finance staff from a number of authorities on behalf of COSLA. Methodology for distributing funds was agreed by COSLA. Allocations of funding for this period were circulated on 17 December 2020. This represented 52% of the submissions of reduced income. Moray's allocation totalled £1,264,000, of which £73,000 related to net lost income at Moray Leisure Centre. It is recommended that this sum is passed on to Moray Leisure Ltd, affording the ALEO the same level of support for lost income as the Council received for its in-house services. The balance of £1,191,000 will be retained to shelter the Council's lost income. The overview included at **APPENDIX 1** reflects free general reserves at 31 March 2021 which are £1,191,000 higher than those reported to Economic Development, Housing and Economic Sustainability Committee on 1 December 2020 (paragraph 11 of the Minute refers).

Financial Flexibilities

- 3.16 As reported to Council on 16 December 2020 (paragraph 7 of the draft minute refers) there are two financial flexibilities which may be available for the Council to use in respect of the budget for 2021/22. Since then guidance has been received from Scottish Government regarding the use of capital receipts to fund revenue expenditure related to the pandemic and a draft Statutory Instrument has been circulated regarding the conditions around taking a loans holiday. The extent of the loans holiday is restricted to expenditure arising from the response to the pandemic. The draft Statutory Instrument appears to require a change to how loans repayments are accounted for in repaying those loans from which a holiday was taken. Depending on exactly how this is interpreted the restrictions could make this option less attractive and clarity on this matter is being sought. At present it appears that there is still an option to exercise financial flexibility in 2021/22 and that that flexibility would be limited to the £1.2 million budget pressures included relating to the pandemic (unless account can be taken of reduced Council Tax income – that is still unclear). The flexibilities are for one year only. The impact on the pandemic on income from sports and leisure facilities is expected to last for more than one year and is shown in the budget pressures listed in **APPENDIX 2** are tapering off over a three year period.

Financial Sustainability

- 3.17 At its meeting on 2 March 2020, the Council approved a medium to long term financial strategy (paragraph 5 of the Minute refers). This strategy included a

small suite of Performance Indicators (PIs), the first of which related to reliance on use of free reserves to balance the budget. The Council needs to reduce reliance on use of free reserves to balance the budget, as such use masks an underlying overcommitment of funds. The position over the last four years and current projection for 2021/22 (based on projected use of reserves and savings to be identified per **APPENDIX 1**) is as follows:

| | Budget | | Actual (est act 2020/21) | |
|---------|--------|------|--------------------------|------|
| | £m | | £m | |
| 2017/18 | 7.611 | 3.8% | 4.615 | 2.3% |
| 2018/19 | 4.720 | 2.4% | 3.787 | 1.9% |
| 2019/20 | 2.094 | 1.0% | - | 0% |
| 2020/21 | 2.348 | 1.1% | 1.715 | 0.8% |
| 2021/22 | 2.300 | 1.0% | | |

- 3.18 When the current budget was set, it was overcommitted by over £2 million. Without savings in 2021/22 the underlying overspend will increase by the amount required to fund inflationary increases and approved budget pressures. The level of savings currently identified, including reduction in loans charges, still leaves an underlying overcommitment. Proposals to partially address this are included in this report and further proposals, mainly relating to financial flexibilities re COVID-19, will be brought forward when the budget is due to be approved.
- 3.19 Funding from Scottish Government will be confirmed when the budget is set but it is unlikely that a pay award will have been agreed and the on-going impact on Council Tax collection is likely to take some time to become clear. When these issues crystallise it may be necessary to bring back a report looking for in-year savings in 2021/22.

4. SUMMARY OF IMPLICATIONS

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

Delivery of the Corporate Plan and the LOIP is underpinned by financial planning.

(b) Policy and Legal

There are no policy or legal implications arising directly from this report.

(c) Financial implications

The report identifies potential recurring savings of £88,000 and £128,900.

(d) Risk Implications

There is a risk that uptake of recycling of garden waste reduces as a result of the increase in fee but given the level of increase proposed this is viewed as minimal. There is a risk that recycling reduces as a result of the three weekly cycle, but experience to date suggests this risk is not significant. These entail the risk that landfill increases and the Council

has to pay more landfill tax but as indicated the risk is considered to be minimal.

(e) Staffing Implications

The proposed staff reduction would be met by deleting vacant posts.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

An Equalities Impact Assessment (EIA) was completed when general household waste was rescheduled to a three week collection cycle and although some potential impacts were identified these were mitigated by a number of actions. The Equal Opportunities Officer advises that the offer of larger bins mitigates any potential impact from a three weekly cycle for paper and cardboard, plastics and cans recyclables and that no EIA is required for the modest increase in an existing charge for garden waste permits.

(h) Consultations

CMT, Heads of Services and the Equal Opportunities Officer have been consulted in the preparation of this report and any comments incorporated.

5. CONCLUSION

5.1 The indicative budgets for 2021/22, 2022/23 and 2023/24 have been revised and indicate a reduced level of savings required in 2021/22 than previously forecast.

5.2 Recurring savings for 2021/22 have been identified and are brought for consideration now because of the lead-in time required to implement the increase in garden refuse permit if approved and to revise schedules and staff up for these if the retention of a three weekly cycle of recycling collection is not approved.

5.3 There remains a considerable level of uncertainty around key budget variables for 2021/22.

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Background Papers:

Ref: LP/LJC/