REPORT TO: MORAY COUNCIL ON 15 FEBRUARY 2017

SUBJECT: 2017/18 FINANCIAL PLAN

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

1.1 To set the level of Council Tax for 2017/18 and to agree the Council's revenue and capital budgets for 2017/18.

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) (2) 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 22nd February 2017

(a) An increase of 3% on Council Tax for 2017/18;

(b) Provision of £2,620,000 for budget pressures as listed in APPENDIX 2;

(c) Savings totalling £3,375,000 as listed in APPENDICES 3 and 4 subject to consultation with staff and Trade Unions;

(d) The revision to committed use of reserves as set out in paragraph 3.13 for March Road, Buckie Development and therefore will be funded from borrowing;

(e) Use of reserves of up to £7,626,000 to balance the budget;

(f) Capital expenditure for 2017/18 as set out in the indicative ten year capital plan in APPENDIX 6 including the listed budget pressures, with the exception of the expansion of pre-school provisions;

(g) That capital expenditure to facilitate the expansion of pre-school provision is included in the 2017/18 plan only if 100% funded by Scottish Government;

(h) That Moray Towns Regeneration Partnerships is informed that the commitment to funding is withdrawn and therefore the council may choose to stop the annual revenue grant with effect of 1 April 2018 and will require any balances to be retained by the council;

(i) That tsiMoray is informed that the commitment to 3-year funding is withdrawn and therefore the council may choose to stop the annual revenue grant with effect from 1 April 2019;

(j) To revise the Devolved School Management Scheme (DSM) so that carry forward underspend balances at yearend will be limited to 5% and any amounts exceeding this limit will be retained by the council.

2.2 It is recommended that the council notes:

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

(b) The impact on Council Tax of the revised ratios for Bands E to H implemented by Scottish Government;

(c) That the planned use of reserves reduces the projected balance at 31 March 2018 to £9,945,000, which is insufficient to meet the gap in the projected budget for 2018/19; and

(d) That the budget is based on the figures issued by the Scottish Government after the Finance Minister's budget statement to the Scottish parliament on 2 February 2017 and that the council's budget will need to be .amended to reflect any changes made by the Scottish parliament.

3. BACKGROUND

3.1 The council's revenue and capital budgets for 2017/18 fall due to be considered in a continued period of reduced funding from central government at both a United Kingdom and Scottish level. This trend of real terms reduction in spending is forecast to continue for a further three years at least.

3.2 The council receives around 80% of its revenue funding from Scottish Government. Over the last seven years, this grant funding has increased, but by 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. Audit Scotland has identified the move in Scottish Government funding for local authorities between 2010/11 and 2015/16 as a 8.4% reduction in real terms. As previously reported, the council has made savings totalling £30 million since 2010/11.

3.3 Although the proposed Scottish budget for 2017/18 was not announced until 15 December 2016, 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 7 December 2016. Notable milestones for the financial planning process during 2016/17 were:

(a) 17 February 2016 – 2016/17 revenue budget was set, and the budget report included an estimated budget position for 2017/18, identifying a projected shortfall of £14 million;
(b) 30 March 2016 – the council agreed that the current range of service provision is financially unsustainable and agreed to limit capital expenditure to less than is required to meet the council's current policies and priorities;
(c) 30 March 2016 – the council agreed proposals for engaging with local communities on the council's financial situation;
(d) 25 May 2016 – the council agreed an interim position for capital expenditure – "Make Do and Mend" – to avoid abortive expenditure on assets which the council cannot afford to keep, and also considered a briefing note to provide members of the public with background information on the council's financial position;
(e) 29 June 2016 – the council considered a report on the revenue out-turn for 2015/16 and approved amendments to the 2016/17 budget based on that out-turn;
(f) 17 August 2016 – the council approved timescales for the completion of an updated Corporate Plan, incorporating the financial plan for the council;
(g) 7 December 2016 – the council approved the creation of a cross party Transition Board to prepare a set of design principles for the next Corporate Plan and considered feedback from the public consultation exercise.

3.4 Community engagement ran from April to October, as part of a wider community engagement process on Community Planning. Six key questions about the council's services were posed for consideration. During this period there was also a seven week Facebook consultation, based on a different topic each week. The engagement exercise also involved staff consultation in the form of the Bright Ideas scheme, feedback from team meetings to discuss a series of questions about council services and the staff conferences theme was "Shaping the Future" of public services.

3.5 During the consultation, the projected shortfall in council funding was £14 million, assuming a Council Tax increase of 3%, or £15 million if Council Tax was not increased. This projection was based on a number of assumptions, generally following the mid-point of the range of indicators supplied by CIPFA to Directors of Finance. The update report on the financial planning process on 7 December 2016 indicated that the shortfall in funding was likely to be higher. The local government settlement announced on 15 December 2016 resulted in a shortfall of £19.5 million less the additional income of £1.1 million raised from revised Council Tax ratios (for Bands E to H) which local authorities are now being permitted to retain. Previously this funding was announced to be top-sliced and redistributed to schools at a national level.

3.5.1 An exercise was undertaken to revise budget pressure figures by accepting a higher level of risk and removing any pressures relating to Social Care. This resulted in a reduction of £4 million to the deficit gap reducing the 2017/18 gap to £14.4 million.

3.5.2 Following the revision to Scottish Budget announcement on 2 February 2017, the projected shortfall has been reduced to £12.1 million. The settlement is dependent on the Scottish Government budget. It is understood that this is subject to a final vote on 22 February 2017. Any further amendment will be balanced by a greater or lesser use of council reserves in 2017/18.

3.6 Additional funding from the revised Council Tax ratios for Bands E to H set by Scottish Government on 3 November 2016 is estimated to amount to £1,100,000. The impact on individual householders is set out below:

	Current ratios	Council Tax 2016/17	New ratios	CT 2017/18 before increase in Band D	Increase per SG
Band A	0.67	£756.67	0.67	£756.67	-
Band B	0.78	£882.78	0.78	£882.78	-
Band C	0.89	£1,008.89	0.89	£1,008.89	-
Band D	1.00	£1,135.00	1.0	£1,135.00	-
Band E	1.22	£1,387.22	1.31	£1,486.65	£99.63
Band F	1.44	£1,639.44	1.63	£1,850.05	£210.61
Band G	1.67	£1,891.67	1.96	£2,224.60	£332.93
Band H	2.00	£2,270.00	2.45	£2,780.75	£510.75

3.7 Under the terms of the financial settlement for 2017/18 the council is permitted to increase Council Tax by up to 3%. This is estimated to raise an additional £1,000,000 income. The impact on individual householders is set out below:

	Council Tax 2017/18	Increase per Moray Council	Total increase from 2016/17
Band A	£779.37	£22.70	£22.70
Band B	£909.26	£26.48	£26.48
Band C	£1,039.16	£30.27	£30.27
Band D	£1,169.05	£34.05	£34.05
Band E	£1,531.46	£44.61	£144.23
Band F	£1,905.55	£55.50	£266.11
Band G	£2,291.34	£66.74	£399.67
Band H	£2,864.17	£83.42	£594.17

3.8 The conditions of the settlement also permit councils to reduce funding for Social Care by their share of £80 million nationally. This amounts to £1,300,000 for Moray.

3.9 The settlement for 2017/18 is a one year settlement and funding for 2018/19 onwards is unknown at this stage, but all indications are that reductions in core funding for local government will continue in the short to medium term.

3.10 The Council had general usable reserves of £23.8 million as at 31 March 2016, but part of those balances are ear-marked for specific purposes in 2016/17, as set out in the table below.

	Cttee ref	Approved £000s	Revised projection £000s
Balance on general usable reserves @ 31 March 2016		23,832	23,832
Less:			
Sharepoint team	P&R 27/10/15	305	305
March Road Industrial Estate	TMC 11/11/15	4,225	Para 3.13
Elgin High School	TMC 3/02/16	745	500
Developing the Young Workforce	C&YP 02/03/16	113	113
PMO staffing	TMC 25/05/16	110	110
Elgin Transport Strategy	P&R 7/06/16 and	135	135
Welfare Reform	P&R 7/06/16	136	136
Economic Development	TMC 29/06/16	128	128
Community Planning	TMC 29/06/16	24	24
Windfarm planning applications	TMC 29/06/16	7	-
CPP Criminal Justice	TMC 29/06/16	50	-
Replacement ice plant MLC	TMC 29/06/16	150	150
CRC allowance (provisions not required)	P&R 30/08/16	(16)	(16)
Building Financial Resilience	TMC 12/10/16	122	122
To balance budget (latest estimate)	TMC 7/12/16	3,593	4,416
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		9,827	6,123
Projected free balance @ 31 March 2017		14,005	17,709
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3.11 The council needs to retain a certain amount of free reserves in case of unforeseen contingencies or emergencies. The council's reserves policy (which was approved by Policy and Resources Committee on 7 June 2016) is to hold £5 million as free reserves. This equates to around 2.5% of income.

3.11.1 Audit Scotland's report "Financial Overview 2015/16" (issued on 29 November 2016) projects Moray to be around the median of council's free reserves as a percentage of income as at 31 March 2017. That report also projects future levels of reserves based on information provided by councils at the time of setting their 2015/16 budgets. That projection shows nine councils – Moray among them – running out of reserves within the three year period. The position is summarised below, but it should be noted that this pre-dates the current settlement. Shetland Council is omitted from the list as it accounts for reserves differently.

Council	General Fund Reserves @ 31/03/16 £000s	GF reserves as %age of 2016/17 income	Projected reserves @ 31/03/19 £000s
Edinburgh	128,472	13.5%	124,666
Renfrewshire	61,378	16.1%	61,378
Aberdeen	58,856	12.9%	58,856
Perth & Kinross	54,908	17.4%	43,546
Inverclyde	49,080	25.8%	32,170
South Ayrshire	31,877	17.0%	26,449
Angus	30,195	12.2%	23,109
Scottish Borders	23,162	8.9%	21,225
Orkney	21,185	26.8%	21,185
North Ayrshire	28,451	9.1%	19,829
East Renfrewshire	18,651	8.4%	18,651
Stirling	22,302	10.9%	18,492
Dundee	15,824	4.6%	15,824
East Lothian	21,745	10.8%	15,570
Glasgow	61,536	4.2%	12,506
East Ayrshire	40,839	12.6%	10,839
West Lothian	19,047	5.0%	9,536
Argyll & Bute	52,189	22.0%	8,892
Eilean Siar	21,720	20.4%	6,724
Dumfries & Galloway	55,461	16.5%	6,310
Midlothian	24,624	12.6%	4,223
Aberdeenshire	44,933	8.4%	1,550
West Dunbartonshire	11,180	5.2%	(519)
Moray	24,713	12.6%	(3,160)
Clackmannanshire	14,202	12.6%	(4,375)
Highland	27,846	5.0%	(6,697)
East Dunbartonshire	19,694	6.8%	(12,064)
Falkirk	21,499	6.6%	(16,981)
South Lanarkshire	32,967	5.0%	(24,033)
North Lanarkshire	63,663	8.7%	(28,840)
Fife	55,123	7.3%	(56,284)

3.12 The report makes a number of assumptions about how the figures reported can be extrapolated, as not all councils provided figures for the complete three year period. No account is taken of current commitments against reserves. Moray's free reserves position is therefore overstated by around £10 million in the above table.

3.13 In view of the pressure on the Council's reserves, it is proposed that the development at March Road, Buckie, approved to be funded directly from reserves, is instead funded through prudential borrowing and the use of capital grant. No use of the ear-marked funding for windfarm planning applications and Community Planning Partnerships (CPP) Criminal Justice preparatory work is projected in 2016/17 and it is proposed that these balances are no longer ear-marked, with work on windfarm planning applications absorbed within the planning budget and expenditure on CPP Criminal Justice met from the ring-fenced funding awarded for 2017/18.

4 REVENUE BUDGET

4.1 The draft revenue budget is set out in **APPENDIX 1** to this report.

4.2 The starting point for the 2017/18 budget is the budget allocated to departments and loans charges for 2016/17. The brought forward Devolved School Management balance is removed and budgets adjusted to reflect the full year effects of budget adjustments made for part of 2016/17 only. The resultant starting point for the 2017/18 budget is expenditure of £196,757,000.

4.2.1 The revenue budget includes a recommendation to revise the DSM Scheme to limit the yearend underspend to 5% of devolved school budget. This equals the limit set for any overspend.

4.3 One-off savings taken in 2016/17 are reinstated, and one-off items of expenditure removed. The budget for the Sharepoint team is also reduced, in accordance with the profile of expenditure approved by Policy and Resources Committee on 12 May 2015 (paragraph 9 of the minutes refers).

4.4 Provision is made within the budget for pay awards and some other inflationary increases in expenditure. Pay awards for teaching and non-teaching staff are still being negotiated. A provision for a 1% increase has been included within the allowance of £2,000,000 for pay and price increases. This provision is also intended to accommodate index-linked contracts (mainly for transport and for the PPP schools contract) and fostering fees and allowances.

4.5 The Capital Plan is discussed in section 6 of this report. The full year effect of borrowing in 2016/17 and the estimated impact of planned capital expenditure in 2017/18 are included in the draft revenue budget at £739,000.

4.6 New burdens are created for local government by legislation passed by the Scottish Government. The Health (Tobacco, nicotine etc and care) (Scotland) Act 2016 comes into effect in 2017/18 and funding has been provided within the local government settlement to cover additional costs associated with this. Moray’s funding is £40,000. In addition to this, the council will receive funding of £1,271,000 for educational attainment. This funding must be passed in full to schools.

4.7 Provision is made for budget pressures which are not funded. The largest single pressure is for funding for Hubco, for the new Lossiemouth High School. This has been estimated as £769,000 in 2017/18. Further budget pressures totalling £1,851,000 are listed in **APPENDIX 2** to this report - £2,620,000 in total. 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. In order to contain the provision for budget pressures an assessment of risk to the council has been made for the pressures identified.

4.8 The total additional funding required by the council to continue all current operations at the 2016/17 level into 2017/18 and to meet all new duties and budget pressures is £6,670,000 taking the total revenue expenditure to £203,339,000.

4.9 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 2016 confirmed that part of the funding for Council Tax Reduction, Discretionary Housing Payments and funding for the Teacher's Induction Scheme are being held back by Scottish Government at present. An estimate has been made for Moray's likely share of these funding streams and Scottish Government General Revenue Grant of £120,175,000, Allocation from the national Non Domestic Rates Pool of £32,654,000 plus £1,311,000 for new burdens included in the budget. This totals £154,140,000 and compares to £156,784,000 in 2016/17.

4.10 As discussed in paragraphs 3.6 and 3.7, Scottish Government has changed the ratios of Council Tax due by householders in Band E to Band H dwelling houses and permitted councils to increase Council Tax by up to 3%. The budget includes the impact of the increased income from the revised ratios and also from a 3% increase in Council Tax. Income of £37,860,000 is estimated from Council Tax in 2017/18.

4.11 The council has approved that the Sharepoint team and the Programme Management Office are funded from reserves. These two items are budgeted for at £228,000 and £110,000 respectively in 2017/18. Income from Scottish Government grant funding, council tax plus the £338,000 already approved from reserves totals £192,338,000. The council consequently has a shortfall of income totalling £11,001,000. The budget reflects proposals to meet this shortfall by making savings of £3,375,000 and funding the balance of £7,626,000 from reserves.

4.12 As noted in paragraph 3.9, the local government settlement for 2017/18 is a one-year settlement only. To assist in forward planning, a projected budget for 2018/19 is included in **APPENDIX 1**. This assumes that the savings approved for 2017/18 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 £14,395,000 in 2018/19. It should be noted that the local government settlements for both 2016/17 and 2017/18 were worse than expected by local authorities. A similar level of reduction in funding in 2018/19 would increase the shortfall to £19,000,000.

5. SAVINGS

5.1 Savings of £141,000 in 2017/18 were agreed when the budget for 2016/17 was approved. The details of these are included in the list of savings in **APPENDIX 3** to this report.

5.2 Further proposed budget savings totalling £2,616,000 are included in **APPENDIX 3**. Some proposed savings require consultation with staff Trades Unions before implementation and these have been indicated by the letter C. The largest single item is a reduction in funding to the Moray Integration Joint Board (MIJB) for Health and Social Care Services of £1,300,000, in accordance with the settlement letter from Scottish Government.

5.3 This reduction in funding is counter-balanced in the MIJB budget by additional funding from Scottish Government of £1,720,000 which will be routed through the NHS, to meet the addition budget pressures from the implementation of the Scottish Living Wage.

5.4 Other savings arise from increased income (£415,000); the implementation of staff restructuring (£168,000); Scottish Wide Area Network (£355,000); other efficiency savings (£177,000), and a range of other measures (£201,000), including review of winter maintenance (£58,000). A review of Winter Maintenance arrangements has identified efficiency savings available through route optimisation of the existing 18 Priority routes which would lead to the current routes being reduced by one, without compromising the current network length being treated. Priority 1 gritting routes have also been reviewed and it is proposed to remove some routes within the identified Priority 1(d) criteria where these roads do not have the following features: schools, school transport, Bluelight services, and public bus routes. This would result in a slight reduction in the network length being treated and offer up additional savings.
It is also proposed to undertake a full review of all the current gritting routes during the summer. Following this a report will be submitted to committee identifying any further savings to be considered.

5.5 The council agreed a range of temporary savings in 2016/17. These have been reviewed to identify which if any could be continued. £250,000 temporary savings are proposed to be extended into 2017/18 and a further £368,000 temporary savings proposed. These are listed in **APPENDIX 4**.

6. CAPITAL BUDGET

6.1 The Asset Management Working Group prepare in draft a ten year Capital Plan, based largely on asset management principles, that is to say a plan of investment required to ensure that the council’s asset base achieves and then maintains the standards approved by the council for the respective class of assets in question. As mentioned in paragraph 3.3 above, it was formally recognised in May 2016 that the council’s asset base is not financially sustainable and a “Make Do and Mend” policy adopted as an interim guide for the preparation of the Capital Plan. The draft Plan is set out in **APPENDIX 6**.

The Plan for 2017/18 has been prepared on the Make Do and Mend basis. The various sections of the Plan are discussed in more detail in **APPENDIX 5.**

6.2 The proposals are estimated to require borrowing of £17,803,000, £6,486,000 less than would have been required if the "Make Do and Mend" approach had not been taken. The impact on the revenue budget under "Make Do and Mend" is an increase of £739,000 on loan charges. This compares with an increase of £878,000 if the entire programme as drafted had been approved. The "Make Do and Mend" approach thus contributes £139,000 to the savings required to be made by the council in 2017/418 and a further £139,000 in 2018/19. It should be noted that this approach is a short-term expedient and cannot be sustained indefinitely.

6.3 The capital plan is funded by a combination of grant funding, capital receipts (including developer contributions) and borrowing. The council's general capital grant was originally announced as £8,187,000 for 2017/18, increased to £8,789,000 on 2 February 2017. This includes a reduction of £2,811,000 relating to grant funding for Findhorn Flood Alleviation Scheme, reflecting the reduction in overall cost of the completed scheme compared to the approved target price. It also includes £730,000 funding for private sector housing improvements, which is revenue expenditure to the council. The grant funding shown in the draft capital plan is therefore £8,059,000. Specific capital grant funding of £131,000 for Cycling, Walking, and Safer Streets has been confirmed. An element of grant funding for the extension of pre-school childcare, timber traffic and Elgin traffic strategy has been assumed: if approved, the net expenditure for these budgets will be monitored to ensure that the council does not incur additional expenditure if grant funding is not available. When developer's contributions held for projects included in the draft plan and estimated capital receipts are deducted, the balance of expenditure will be funded by borrowing. This amounts to estimated borrowing of £17,201,000 in 2017/18.

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

7. GOVERNANCE

7.1 In the past few years the council has conducted budget setting meetings with a significant risk of agreeing budget proposals that have not been properly assessed in terms of deliverability or impact. It is poor governance for the council to be taking decisions about the future of council services with insufficient information and yet this has become a feature, once a year, when the budget is considered. The risk is heightened at this time due to the following factors:

(i) As formally recognised by the council, the current level of service delivery is not financially sustainable;

(ii) Efficiencies and additional income will continue to contribute to the savings target BUT a significant gap will remain and councillors have not yet identified the services areas that will be reduced to address that gap;

(iii) The council is reliant on reserves for the delivery of services and those reserves will be completely exhausted at some point in 2018/19 unless decisions are made to reduce council service provision; and

(iv) The council operates with a minority Administration.

7.2 Part of the mitigation of this risk has been the agreement of a protocol between the Administration Group, the SNP Group and Cllr Divers. The agreement is that the Administration Group will provide the SNP Group and Cllr Divers with a copy of their budget, in confidence, seven days prior to it being issued as part of the agenda for the council meeting. In return the SNP Group and Cllr Divers will notify the Administration Group and the Corporate Management Team of any amendments they intend to propose within 7 days of receiving the proposals from the Administration Group. This will give the Corporate Management Team the opportunity to assess the basis for any amendments and advise the Administration Group, the SNP Group and Cllr Divers of their assessments. Subject to any further changes to the amendments to be proposed, the advice of the Corporate Management Team will be provided at the council meeting.

7.3 The Administration Group will also provide the other 3 councillors with a copy of their budget in confidence to give them the same opportunity, although no agreement has been sought on the sharing of any amendments that those councillors my wish to propose. Any amendments submitted later than one week prior to the meeting will need to be assessed by the Corporate Management Team and advice will be provided based on that assessment. Extending the protocol will be a matter that will need to be considered again as the council continues to improve its governance arrangements in relation to budget setting. The timing of amendments being made available to the council has not yet been agreed. As a minimum, printed copies of any amendments will need to be provided to all councillors at the time they are proposed. Unless the council is minded not to consider such amendments it is likely that an adjournment will be required to consider any new proposals that have not previously been assessed by the Corporate Management Team.

7.4 Given the potentially sensitive nature of budget amendments, the Corporate Management Team has established a process to enable consideration to be given to budget amendment proposals. This consideration identifies that, whereas officers have generally avoided advising the chair on the competence of budget amendments in the past, this approach will need to change. Therefore, if officers have sufficient reason to doubt the deliverability of a budget proposal, advice will be provided accordingly. Advice on deliverability may focus on the degree of clarity around how the saving would impact on services, or on whether the projected savings could actually be achieved. As regards the first issue, in order to make an informed decision on budget proposals, members must be clear on the service area to be targeted and implications for services in that area. This is a matter for political determination and not an operational matter for officers to determine.

7.5 As the council continues to use its reserves for day to day expenditure and has no plan to address the recurring shortfall it is also appropriate to refer councillors to Section 93 of the Local Government Finance Act 1992 which requires the Council to agree a Council Tax rate and a balanced budget. In failing to do this, the Head of Financial Services will be required to notify Audit Scotland and the Finance Minister. It is not envisaged that this would be required for the 2017/18 budget, but as indicated above, it is important that members are aware of the risks and the change in approach that the council will be required to adopt to address the weaknesses in the current governance of budget setting.

8 SUMMARY OF IMPLICATIONS

(a) Moray 2026: A Plan for the Future and Moray Corporate Plan 2015 - 2017

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 proposals set out in this report would result in budget pressures of £2,620,000 being funded, with a further allowance of £2,000,000 for pay and prices increases and provision of £739,000 for increased loan charges.

Savings of £141,000 have previously been approved and a further £618,000 temporary savings (2017/18 only) and £2,616,000 permanent savings are proposed.

The balance of £7,626,000 will be funded from reserves in 2017/18. In total the revenue budget will be set at £203,339,000 with a projected level of reserves at the end of 2017/18 of £9,945,000.

(d) Risk Implications

The proposed budget for 2017/18 is subject to the following risks:

- There is a risk that the minority administration in Scottish Government fail to get sufficient support to pass the budget as drafted – this will not be known before council meets to set its budget.
- Budget assumptions may be lower than the actual level of expenditure required by services. In particular, the pay award for 2017/18 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.
- Inflation has been very low recently but is projected to rise. The fall in the sterling exchange rate against the dollar have a considerable impact on some contract prices.
- 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 no allowance made for contingencies.
- The "Make Do and Mend" policy increases the likelihood of unplanned major element failures.
- 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. The new rations for Bands E to H add an additional level of unpredictability in 2017/18.
- 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.
- 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.

(e) Staffing Implications

The council proactively manages its vacancies to ensure staffing structures meet the needs of services.

(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
To ensure that the council has complied with public sector equalities duties and to ensure that no decision made unfairly discriminates, the council must carry out robust equality impact assessments and consult and involve relevant stakeholders as part of the decisions-making process.

(h) Consultations
During 2016 the council commenced a new engagement process with the Moray community. A report on the scale of the feedback received, the successes and learning points arising from the engagement was made to council on 7 December 2016. The responses have been collated and published on the council's website and the Community Engagement Group has recently agreed arrangements for responding to the comments received. The comments from the community will be highlighted to the new council to assist with the challenging decisions that will need to be made to prepare the financial plan for 2018/19.

Information on the council's financial position and the budget proposals from the Administration Group has been shared with trade unions. The SJC and Craft trade unions were updated on progress in relation to the financial plan at the last meeting with officers on 27th January 2017.

The Corporate Management Team has worked with the Administration Group to prepare the budget proposals presented in this report.

9. CONCLUSION

9.1 The council's revenue budget is unsustainable, even in the short term, and by the end of 2017/18 useable reserves are projected to be insufficient to meet the projected budget shortfall in 2018/19.

9.2 The council's asset base is unsustainable in the medium term and the capital plan for 2017/18 reflects the need to minimise abortive expenditure on an asset base which requires to be reduced.

9.3 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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