

REPORT TO: THE MORAY COUNCIL ON 30 SEPTEMBER 2009

SUBJECT: FINANCIAL PLAN REVIEW

BY: CHIEF FINANCIAL OFFICER

1. REASON FOR REPORT

- 1.1 To update Members on the major issues affecting the Council's Financial Plan and to provide an assessment of the medium term position.
- 1.2 This report is submitted to the Council in terms of Section A(1) of the Council's Administrative Scheme relating to the financial and budgetary policy of the Council.

2. RECOMMENDATION

- 2.1 **Note and consider the contents of this report.**

3. BACKGROUND

- 3.1 Members were provided with an update on the Financial Plan at the Council meeting on 2nd July 2009. The headline at that time was an estimated shortfall of £8 million for 2011/12 and Members were advised that operating costs would need to be reduced by £4 million by 1st April 2010 and a further £4 million by 1st April 2011.
- 3.2 Since providing the last report on the financial situation, the concerns regarding the global economic downturn on public services have been confirmed by many finance experts and commentators. The overall position on the budget prospects for Scotland is captured comprehensively in a report by the Centre for Public Policy for Regions which is available on the Council's website and on the Members' portal. The current position is summarised below:

- The UK is burdened with an unprecedented level of debt.
 - This will result in much less money being available to provide public services.
 - The estimated impact for Scotland for the four years 2010/11 to 2013/14 is a real terms reduction of 8.5%.
 - Based on an 8.5% reduction, Moray Council would need to reduce expenditure from £195 million in the current year to £179 million by 2013/14 – a reduction of £16 million. (A more detailed analysis indicates that the reduction will be more than this).
 - By April 2014, the level of UK debt is anticipated to still be well in excess of acceptable levels and further reductions are likely in the following four years.
- 3.3 The report by the Centre for Public Policy for Regions identifies a number of assumptions and risks that could result in even greater reductions over the next eight years for Local Government. Emphasis is also placed on preparing for the reductions in grant funding and that such preparations are likely to improve the effectiveness of decision making.
- 3.4 During the past four months, Council Officers have been working with the Administration Group of Councillors to review all Council Budgets in detail. The review process has enabled those Councillors to assess all service activities against the following headings:
- Is it a national priority?
 - Is it a local priority?
 - Potential savings
 - Risks and consequences of any budget reduction
- 3.5 Given the massive reduction in grant funding that is expected during at least the next four years, Councillors were advised that unless there is a statutory requirement for a service, then all potential savings should be identified. Councillors were asked to allocate each potential saving to one of four phases with phase one being the first to be introduced and phase four the last to be introduced. The timing of when the savings will actually have to be introduced will depend primarily on:
- Government Grant funding
 - Pay Awards and Other Inflationary Pressures
 - Council Tax Increases
 - Efficiency Savings Achieved

- 3.6 The review has been a substantial undertaking for both Councillors and Officers. The backdrop to the discussions has been uncertainty from Westminster. Whilst it is a fact that the UK is burdened with an unprecedented level of debt it is not clear how future UK governments will attempt to deal with the scale of the problem. The CPPR report sets a clear indication of substantial reductions, but this is not matched (at present) by proposals on spending reductions from either of the two largest political parties in the UK.
- 3.7. The uncertainty described above makes it very difficult for the Council to establish the scale of the reduction in grant funding from the government. A number of assumptions are made in this report to give Members an appreciation of the likely scale of reductions and to assist the financial planning process.
- 3.8 Given the uncertainty described in paragraphs 3.6 and 3.7 above it is inevitable that the potential savings identified from the recent review will need to be reassessed and increased in the years ahead.

4. OVERVIEW

- 4.1 It is necessary to make a number of assumptions to establish an estimate of the savings that will be required in the years ahead. The summary overview is attached as **APPENDIX 1** and the key assumptions are described below.
- 4.2 (a) Service Allocations – This line represents the total budget allocated to each of the Council's services. A major review was undertaken by the Council in 2007/08 to establish local priorities. The culmination of this review was reported to the Council on 14th May 2008. Prior to the economic downturn, the plan had been to review and refine this plan on an annual basis, but as described earlier in this report, it is now necessary to review allocations on a more fundamental basis. The service allocations will be amended as and when decisions are made about budget savings and any additions that require to be made.
- (b) Pay and Prices – The Government's preferred measure of inflation is the consumer priced index (CPI) for which the Government has a long established target of 2% plus or minus 1%. The latest figure for CPI is 1.6%. Other measures of inflation are often quoted during pay negotiations and it is notable that whilst RPI was 5% in mid 2008, the latest figure is -1.3%. Teaching Unions agreed a three year deal with employers and the third year is for an increase of 2.4% in 2010/11. Earlier in the year, the Scottish Government Finance Minister called for public sector pay rises to be limited to 1.5%.

For the purposes of the overview, a 1.5% increase has been assumed for each year from 2011/12 to 2013/14. For 2010/11 the 2.4% agreement for teachers has been used and for other staff groups, the Administration Group are following the COSLA line of no increase.

Pay awards are a significant factor for the Council's Budget, each 1% increase amounts to £1.2 million of additional staff costs. Pay awards also establish a negotiation position with external providers of care which amount to £0.3 million per 1% of inflation. Therefore, as a rule of thumb, each 1% movement amounts to a change of £1.5 million on Council expenditure.

- (c) Budget Pressures – These are dealt with in **APPENDICES 2 to 5**.
NOTE: All of the increases on Appendices 2 to 5 are recurring, therefore an increase shown in 2011/12 is a permanent increase thereafter within the relevant service area.

APPENDIX 2 – Existing Expenditure in excess of budget

From the year end accounts for 2008/09 a number of areas were identified where expenditure is likely to exceed budget on a recurring basis. Further pressures have been identified during the first half of the current year and are included on the list **APPENDIX 2** for which additional budget provision is required. The overspends are the result of demand on other pressures outwith the control of the Council.

APPENDIX 3 – Government Priorities

As part of the concordat agreed between COSLA and the Scottish Government there were a number of growth items established. The 2 remaining items are the introduction of free school meals for pupils in P1, P2 and P3 and an expansion of pre-school service from 2½ hours to 3 hours per day.

In the current year the Council has extended the entitlement to free school meals. This is the result of another concordat commitment entitling pupils to a free meal if parents/carers are in receipt of maximum child tax credit and maximum working tax credit. The full year effect will be additional £80,000 per year on top of the part year cost of £120,000 the current year.

Pre-school service provision – new standards are due to be introduced requiring pre-school groups to employ managers with a degree qualification and have access to a teacher. There is a great uncertainty at present regarding the financial implications of these new standards.

APPENDIX 4 – Local Priorities

The Council is committed to the construction of a new regional sports facility and once completed there will be annual operating costs of around £200,000 associated with the facility.

The Scottish Government is due to provide additional grant support for the PPP Schools and it is expected that there will be a funding gap to be met by the Council.

Care of the Elderly – The 4 year financial plan approved by the Council on 14th May 2008 included growth of £250,000/year up to 2011/12.

Loan Charges – this line refers to the cost of repaying additional loans that are used to finance capital works. The budget announcement by the Scottish Government Finance Secretary included a reduction in capital grants for 2010/11 of £43M for local government. The detailed allocations will be announced around the end of October 2009. This level of reduction can be used for each of the next four years of the Council's Capital Plan for the purposes of reviewing the plan. This assumption results in a reduction of £600,000 for each year of the Capital Plan. It is likely that the Council will include a further reduction in the Capital Plan to reduce the cost of borrowing. For the purposes of establishing a balanced view of the Revenue Budget for the purposes of this report, the following changes to the existing Capital Plan have been assumed:

1. Waste Management £10M investment deferred.
2. Road Infrastructure and School Estate Management Plan reduced by 20%.

These assumptions will need to be considered in detail when reviewing the Capital Plan for the next five year period. If these assumptions are incorrect and the existing Capital Plan is retained, the impact on the Revenue Budget will be additional savings as follows:

	2010/11	2011/12	2012/13	2013/14
Additional Savings Required	£200,000	£400,000	£400,000	£30,000

It has been assumed that the Council will receive 80% funding for all Flood Alleviation Schemes across Moray during the three year period 2011/12 to 2013/14.

APPENDIX 5 – Other Budget Pressures

Services for Adults with Learning Disabilities – The Council approved 2 new residential facilities earlier this year and the operating costs are shown in 2010/11. There are a number of other individuals that the Council is aware of as requiring substantial care packages and there are no estimates available as yet for these additional cost pressures.

Looked After Children – The Head of Children and Families has identified specific pressures in relation to Casework Services and care placement services which he has highlighted as requiring additional funding for the Council to meet its obligations in these areas.

Climate Change Levy – based on the Council's energy usage during 2008 a payment of £380,000 will have to be made to the Government in 2011/12. Subject to subsequent reductions in energy usage and the reductions made by other large organisations the Council will either be able to reclaim some of this money in future years or will be required to pay further amounts.

Landfill Tax – Landfill tax is set to increase by £8/tonne year on year. It has been assumed that the Council will sustain current levels of recycling and therefore incur the additional landfill tax charges based on existing levels of landfill.

Joint Boards – The Council has a minority representation on each of the 3 Grampian Joint Boards and is required to pay the amounts requisitioned by each Joint Board. At this stage it has been assumed that Police and Fire will increase by 2% each year and that there will be no increase for the Assessor. The reasoning at this stage is the potential for Police and Fire to be protected in any cuts to public spending. The Council will be reducing in most areas and a standstill budget would, in relative terms give a higher priority to the Assessors Service than any Council Service.

Care in the Community – There is an increase of £250,000 included in 2010/11 and in 2011/12 on Appendix 4. Projections for the number of elderly people requiring care during the next 4 years indicate the requirement for significant growth in this service area. There is the potential to implement substantial changes to the delivery of these services and the recommendation is for the Council to attempt to contain additional demand for services within existing budget levels through an agreed programme of change.

Rates Revaluation – a revaluation of non-domestic properties was completed during the year and subject to the rate poundage set by the Government this could place a further substantial financial burden on the Council in 2010/11. Current indications are that this could be in the order of £1M. It would seem logical that any additional tax raised from local government would be returned to Councils.

Returning to **APPENDIX 1**

- (d) Efficiency Savings - The Council's Efficiency Programme is centred on the transformational changes being developed by the Designing Better Services (DBS) initiative. During Phase 1 of DBS potential savings in excess of £4 million were identified and by December 2009, detailed designs should be completed that will include more reliable estimates of the savings to be targeted. The work done during Phase 1 of DBS indicated that the full savings would be delivered by 2012/13. The profile of the savings is for indicative purposes only. Detailed implementation plans are required to identify when savings will be achieved.
- (e) Other Savings Required – Based on the assumptions in this report, the Council would need to reduce its operating costs by £19 million by 1st April 2013. As described elsewhere in this report, there is a great deal of uncertainty in relation to these figures. However, there is great certainty that the level of savings will be colossal, at least over the next four years and potentially for the next eight years and the Council therefore needs to plan accordingly.
- (f) Grant – The figure for 2010/11 was provided by the Scottish Government in December 2007. The UK Government subsequently reduced the funding to Scotland for 2010/11 by around £500 million and on 17th September, the Scottish Government announced its revised budget for Government spending in 2010/11. Detailed figures for Councils are due to be issued in late October/early November. Moray Council accounts for around 1.6% of local authority expenditure in Scotland and based on this percentage, an estimate has been made for the revised grant figure due to the Council for 2010/11.

For the following three years, the level of grant funding has been reduced in line with the estimates from the CPPR report with an additional allocation for the PPP funding grant referred to above.

The Chancellor of the Exchequer has announced that there will be no further spending review prior to the next General Election. It is therefore likely that no further grant figures will be forthcoming until November 2010, although there is a possibility that any new UK Government might introduce changes to funding for 2010/11 soon after taking office.

- (g) Grant for Council Tax Freeze – It has been assumed that the grant in lieu of a Council Tax increase will cease after 2010/11. This line on the overview refers to the additional increase of £1.1 million and in total the Council will be receiving £3.4 million for the three years of Council Tax freezes from 2008/09 to 2010/11.
- (h) It is assumed that the new PPP schools will be built by 2012/13 and that the government contribution of £3.4M will commence in that year.

- (i) Council Tax – An increase of 3% in Council Tax has been assumed for 2011/12 and each year thereafter. Every further 1% increase would provide additional income of £360,000. Ministers may invoke capping if they deem the increase to be higher than considered acceptable.
- (j) Council Tax and Second Homes – Income earned from charges for Council Tax on second homes is ring-fenced for the provision of social housing.

4.3 Flood Alleviation Schemes

- 4.3.1 By 31st March 2011, it is estimated that the Council will have spent £89 million on Flood Alleviation Schemes and will have received grant support of £46 million. When the Council embarked on the programme of Schemes, grant support was 80% of electrical costs and the target figure for grant support was therefore £71 million for the period to 31st March 2011. It is understood that the main reason for this shortfall of £25 million was because the grant allocation was assessed based on the schemes for Forres (Burn of Mosset) and Rothes only. Meanwhile the Council has continued to incur costs to develop the schemes for Elgin and Forres (Findhorn). At the time that the Government moved away from 80% grant funding, there was an expectation that the Council might still receive grant equivalent to 80% even if it were deferred to later years. A summary of the position described above is as follows:

	Target £M	Actual £M
Scottish Government Grant	71	46
Council Contribution	<u>18</u>	<u>43</u>
Expenditure to 31 st March 2011	£89M	£89M
	=====	=====

The annual cost to the Council to cover the £25 million shortfall is £1.6 million per year for thirty years.

- 4.3.2 During 2010, it is also likely that the Council would need to commit to the construction of the Elgin and Forres (Findhorn) Schemes. This will result in a commitment to further capital investment of £71 million from 2011/12 to 2013/14. As we are unlikely to know the position regarding grant funding till November 2010, this could delay decisions on those schemes. An added complication will be whether the UK Government announces three year funding or single year funding in 2010. If the announcement is restricted to a single year, then it is extremely unlikely that the Council would be able to commit to the remaining two schemes prior to September 2011.

- 4.3.3 In a radio interview on 8th September the Cabinet Secretary for the Environment referred to the Flood Alleviation Schemes for Moray and the Convener has written to the Minister seeking confirmation that the Government is committed to funding 80% of the schemes.

5. RESERVES

- 5.1 The General Services Reserve as at 31st March 2009 is summarised as follows:

	£M
Balance	9.2
LESS: Specific Commitments	<u>2.2</u>
Balance Available	£7.0M =====

The latest estimates for expenditure in the current year indicate an overspend if no action is taken. The Corporate Management Team have implemented a range of short term expenditure reductions in an attempt to reduce the overspend in the current year.

The scale of the savings that the Council will be required to implement and the potential one-off costs associated with reducing expenditure mean that it is more important than ever before that the Council should maintain the maximum possible General Reserve.

- 5.2 The Capital Fund has been fully utilised on Flood Alleviation Schemes. The Council also maintains a Flood Repair Fund with a balance of £2.8 million. The Council has an excess of £5 million on its insurance for the cost of a flood emergency. The Council should only consider using this Fund once all Flood Alleviation Schemes are in place. In light of the recent floods the flood repair fund may be required to be used in the current year.

6. SUMMARY OF IMPLICATIONS

(a) *Single Outcome Agreement/Service Improvement Plan*

The Council will need to consider the impact of changes to the Financial Plan on the Single Outcome Agreement as part of the budget setting process.

(b) Policy and Legal

The Council is required to set Council Tax for the year ahead by 11th March. To issue Council Tax bills on time, Council Tax needs to be set in early February.

Due consideration must be given to all statutory obligations of the Council in setting the Financial Plan.

(c) Resources (Financial, Risks, Staffing and Property)

This report deals with the future financial planning arrangements of the Council.

(d) Consultations

A separate report is provided to this meeting of the Council on proposals for consultation on potential savings. The Corporate Management Team has been involved in advising the Administration Group of Councillors in preparing the potential savings and the strategy for consultation.

7. CONCLUSION

- 7.1 This overview of the Council's financial situation for the next four years describes the requirement for huge reductions in services provided by the Council. Current estimates indicate a rapid and ongoing reduction in the grants provided by Government to fund public services and indications are that the reductions for Local Authorities will be more than have been assumed within this report. Therefore, the Council is urged to commence consultation on the phasing of unprecedented cuts in local services as a key part of the planning process.
- 7.2 Further clarity will be provided on the level of grant funding for 2010/11 around the end of October with figures for future years likely to be provided by November 2010. There is a risk that grant figures for 2010/11 may be amended by any new Government following the General Election which will be held no later than June 2010.
- 7.3 The overview position will continue to be refined and updated as other information, such as pay awards and requisitions from Joint Boards, becomes available.
- 7.4 The 5 Year Capital Plan will also be reviewed in light of anticipated reductions in capital grants and the impact of borrowing on the revenue budget.

7.5 At this stage, it is estimated that the Council will need to implement savings of around £3.5M for the next financial year, followed by three years of further savings in the order of £16M. The report describes the key assumptions and at this stage, the three key areas are:

- Government Grant Funding
- Pay Awards
- Capital Plan Review

As and when these areas are finalised, they are likely to have a significant impact on the estimates currently provided.

The estimates will change and on balance it is considered that the level of savings for the year ahead and future years will be more than currently estimated. Given the current uncertainties for the purposes of consultation the savings target should be no less than £4M for 2010/11.

Author of Report: Mark Palmer, Chief Financial Officer – Ext 3103

Background Papers:

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