

**REPORT TO: THE MORAY COUNCIL ON 11<sup>TH</sup> FEBRUARY 2010**

**SUBJECT: FINANCIAL PLAN REVIEW**

**BY: CHIEF FINANCIAL OFFICER**

**1. REASON FOR REPORT**

- 1.1 To review the Council's four year financial plan and to agree the level of the Council Tax for 2010/11.
- 1.2 This report is submitted to the Council in terms of the Council's Administrative Scheme relating to the Financial and Budgetary Policy of the Council.

**2. RECOMMENDATION**

**2.1 It is recommended that Members;**

- (a) Approve the Revenue Budget for 2010/11;**
- (b) Set Council Tax for 2010/11;**
- (c) Note the Revenue Budget estimates for future years and the need to agree further substantial savings beyond 2010/11.**
- (d) Agree that the existing commitment to fund £700,000 of the Regional Sports Facility and £250,000 of Office Accommodation from the General Fund be transferred to commitments against future Capital Plans.**
- (e) Approve the revised Capital Plan for 2010/11 and agree that all Capital Project allocations are subject to detailed reports being submitted to the appropriate service committee for approval;**
- (f) Agree the revised Capital Plan for 2011/12 to 2014/15 as an indicative plan and that it will be subject to further review once capital grant figures are announced by the Scottish Government;**
- (g) Note that the cost of implementation for the Designing Better Services programme will be reported to Policy and Resources Committee on 2<sup>nd</sup> March 2010 and these non-recurring costs will be funded from Council reserves.**

**3. BACKGROUND**

3.1 A four-year financial plan was approved by the Council on the 14<sup>th</sup> May 2008. At that time, the Council was advised that there was significant financial uncertainty in relation to:

- Funding for Flood Alleviation Schemes
- Demand levels for Services to the Elderly
- Inflationary Pressures

- 3.2 A review of the financial plan was undertaken and amendments were agreed at the Council meeting on the 12<sup>th</sup> February 2009. At that time it was noted that budget allocations for future years would need to be reviewed in early course in light of the budget shortfalls estimated for future years.
- 3.3 The Administration Group commenced their review of the financial plan in early June and an overview report was provided to the Council meeting on the 2<sup>nd</sup> July 2009. The position was further updated with a report to Council on the 30<sup>th</sup> September 2009 which included reference to a report by the Centre for Public Policy for the Regions which set out a number of high level assumptions about future funding levels for local government in Scotland. The conclusion at that time was that the Council would need to reduce expenditure by 2.5% year on year for the next four years with total service expenditure being reduced by around £20 million per annum on a recurring basis by 2013/14.
- 3.4 The review work by the Administration Group resulted in a report being provided to the Council detailing a number of potential savings and it was agreed to undertake consultation with local community groups on the Administration Group's proposals. Further reference to the consultation arrangements are described later on in this report.

#### **4. REVENUE BUDGET 2010/11**

- 4.1 The Administration Group's budget proposals for 2010/11 are based on a number of changes to the existing budget. These changes are set out in **Appendices 1 to 6** of this report as described below. Please note that each appendix includes figures in respect of the four year period and further reference to years 2011/12 to 2013/14 is made in Section 5 of this report.
- 4.2 **Appendix 1** provides a summary of the proposed budget for 2010/11.
- 4.2.1 Pay and Price Increases – This provision includes the teacher's pay award of 2.4% as per the agreement with teaching unions and 1% has been included for all other pay awards.
- 4.3 **Appendix 2** lists a number of adjustments that relate to: items already agreed that have not yet been allocated, non-recurring budget allocations and cost pressures identified during 2009/10 for which budget provision has yet to be made.
- 4.4 **Appendix 3** provides details of the additional budgets required to meet government priorities including those identified in the Concordat agreed between COSLA and the Scottish Government.

- 4.4.1 Free School Meals – Extension of Entitlement. This line refers to a change in regulations allowing more families to gain access to free school meals. The new regulations came into effect in August 2009 and the additional budget relates to the full year effect of the changes.
- 4.4.2 Free School Meals for P1, 2 and 3. Free school meals for pupils in primaries 1, 2 and 3 will be provided in the 3 schools within the areas that are currently recognised as deprived based on the Scottish Index of Multiple Deprivation.
- 4.4.3 Class Size Reduction – The additional budget allocation will enable three additional primary school teachers to be employed with effect from August 2010 and it is anticipated that this will result in an increase in the number of children in P1, 2 and 3 in classes of 18 or less from 7% to 15%.
- 4.4.4 Previous draft versions of **Appendix 3** included additional costs associated with the pre-school service. It is considered that additional costs are unlikely to be required in the year ahead and therefore no budget provision is to be made at this time.
- 4.5 **Appendix 4** is a list of local priorities.
  - 4.5.1 The regional sports facility is included in the draft capital plan in 2012/13 to 2013/14 and the additional operating costs have been provisionally estimated at £200,000 per year.
  - 4.5.2 PPP Schools: 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.
  - 4.5.3 Care of the Elderly. The four-year financial plan approved by the Council on 14<sup>th</sup> of May 2008 identified year on year growth of £250,000 for Care of the Elderly and by 2011/12 the Council will be investing £1 million per year more on Care of the Elderly.
  - 4.5.4 Telecare – the four-year financial plan approved in May 2008 also included additional investment in Telecare for 2009/10 when combined with government match funding this resulted in an increase of £200,000 for that year. For the year ahead the Council will increase its contribution to Telecare by a further £50,000 taking the Council's budget to £100,000. At this stage there has been no indication that match funding from the government will continue.
  - 4.5.5 Loan Charges – these are the additional loan charges required to fund the Council's Capital Programme and further details are provided on the Capital Plan in Section 6 of this report.
- 4.6 **Appendix 5** provides a list of other budget pressures.

- 4.6.1 Residential Services for Adults with a Learning Disability – this relates to funding for the new residential facility in Forres and other similar units that will be required to meet the Council’s obligations in this area.
- 4.6.2 Looked After Children – the Head of Children and Families has identified a specific pressure 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.
- 4.6.3 Mental Health Services – details of the budget increases required for mental health services were provided as part of the report to the Council meeting on the 14<sup>th</sup> of May 2008. The annual increase in 2010/11 of £168,000 brings the annual recurring increase to a total of £324,000 for the service.
- 4.6.4 Landfill Tax – this is set to increase by £8 per 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.
- 4.6.5 Speyside Way – Other partners have identified reductions in their funding commitment towards the operation of the Speyside Way long distance route. This cost increase is offset by an equivalent saving included on **Appendix 6**.
- 4.6.6 Joint Boards – the pension costs for the joint boards are due to increase by a large amount and these costs together with a proportion of existing pension costs will be funded directly by the Scottish Government from the 1<sup>st</sup> April. This results in an overall decrease in the requisitions and a corresponding decrease in grant from the Scottish Government. In net terms the Council has received an increase in the requisition from Grampian Joint Police Board of £274,000 which is equivalent to an increase of 3.5%.
- 4.6.7 Care in the Community – as indicated in Section 4.4 above, by 2011/12 the Council will be investing £1 million per year more on care of the elderly compared to the budget for 2007/08. Projections for the number of elderly people requiring care during the next four years indicate that there will continue to be significant growth in demand for the services. Inevitably, there are limitations to the forecasting models for this growth and for the year ahead it is anticipated that the budget will need to be increased by a further £500,000. The assumption within the budget is that this will be funded by transformational changes within the service area.
- 4.6.8 Non-Domestic Rates Revaluation – a revaluation of non-domestic properties was completed during the year and when combined with the revised rate poundage set by the government it is estimated that the cost to the Council will increase by £250,000 per year.

4.7 Efficiency Savings – The final report from Designing Better Services Phase 2 is due to be provided to Policy and Resources Committee on 2<sup>nd</sup> March 2010. It is important to emphasise that the £700,000 efficiency savings is a target at this stage.

#### 4.8 Budget Reductions

4.8.1. The Administration Group have identified a number of reductions in Council budgets. These reductions include some efficiency savings on top of the £0.7 million target from the DBS programme, some increases in charges for services and a number of cuts to services.

4.8.2 On 4<sup>th</sup> November 2009, the Council agreed arrangements for consultation on the Administration Group's budget proposals. Details of the savings are provided on the following appendices:

- Savings from Consultation Proposals – **Appendix 6**
- Additional Savings identified since the consultation – **Appendix 6a**
- Other Savings – **Appendix 7**

#### 4.8.3 Summary of Savings Proposals

|  | <b>£000</b>           |
|--|-----------------------|
| Reductions identified in Budget Consultation ( <b>Appendix 6</b> ) | 2,819                 |
| Additional Savings ( <b>Appendix 6a</b> )                          | 386                   |
| Savings Agreed   | 349                   |
| Review of Base Budgets   | 178                   |
| Demographic Changes (Reductions in school rolls)                   | 300                   |
| Profits from Trading Services                                      | 200                   |
| Inflationary Increases in Charges                                  | <u>60</u>             |
| <b>Total Budget Reductions</b>                                     | <b>4,292</b><br>===== |

This leaves a balance of £18,000 of savings not identified which is not material in the context of the overall Council budget.

## 5. FUTURE YEARS

5.1 As previously indicated, **Appendices 1 to 5** identify details of the budget for the next four years. The Council has yet to receive grant figures from the government for years 2 to 4 and as government grant represents around 80% of general services income, this results in significant uncertainty for that period. The position is exacerbated by uncertainty in a number of areas associated with the budget and an outline of the main issues for future years is provided in the following paragraphs.

- 5.2 The estimated level of grant funding from the Government is based on the estimates from the Centre for Public Policy for the Regions. Whilst it is possible that the actual level of grant could be more than estimated, current indications are that the estimates for the three years beyond 2010/11 may be optimistic and the actual grant could be somewhat lower than shown on **Appendix 1**. 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 a new UK Government might introduce changes to funding for 2010/11 soon after taking office.
- 5.3 Demographic changes are anticipated to present major challenges to the Council during the next four years. The number of elderly people requiring care services from the Council is anticipated to increase and at present the financial plan assumption is that this growth will be contained by transformational changes to services for the elderly. It is understood that these transformational changes will require a combination of more efficient methods of working although the more significant aspects of change will be a reduction in the reliance on the levels of care currently provided. The Council also faces an increase in the demand for Community Care Services provided to other adults resulting in more demand for residential places than are currently available.
- 5.4 The cost of meeting the requirements placed on the Council from Environmental Legislation relating to the Council's Carbon Footprint and Waste Management will also continue to be increasing financial burdens for the Council.
- 5.5 The final area of uncertainty is inflationary cost pressures. At the current time, inflation is above the Government's target of 2% (using the consumer price index). This compares with an inflationary assumption of 1.5% for the three years after 2010/11. 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.
- 5.6 At this stage it is estimated that the Council will need to implement savings of £5 million for 2010/11 and that this will need to be followed by the same level of savings in each of the following three years. This means that by 1<sup>st</sup> April 2013 the annual cost of delivering Council Services needs to have reduced by around £20 million (10%) of the amount that it currently costs to deliver those services. There is the potential for the position to be worse than this estimate and this will depend upon the level of grant funding from the Government and the other key issues identified as key budget pressures above.

- 5.7 The savings identified for the consultation process covered the 4 year period and for 2011/12 to 2013/14 the savings identified are summarised as follows:

|                                       | <b>£M</b>    |
|---------------------------------------|--------------|
| Savings Proposal (Service Reductions) | 2.9          |
| Other Savings                         | 0.6          |
| Efficiency Savings Target             | <u>3.8</u>   |
|                                       | <b>£7.3M</b> |
|                                       | =====        |

This amount of £7.3M compares with the current target of £15M for the 3 years from April 2011. The consultation pack also included a number of areas requiring further investigation. Given the need to identify additional savings of around £8M Councillors will need to review this list and agree a timetable to identify the necessary further savings.

## 6. **COUNCIL RESERVES**

- 6.1 The table below provides a summary of the reserves held by the Council.

|                                      | <b>BALANCE AS AT<br/>01/04/2010<br/>£'000</b> |
|--------------------------------------|---|
| <b><u>FREE BALANCES</u></b>          |   |
| General Fund                         | 9,264   |
|                                      | =====   |
| <b><u>RESTRICTED BALANCES</u></b>    |   |
| Coastal Protection Fund              | 62  |
|                                      | ==  |
| Printing Equipment Replacement       | 71  |
|                                      | ==  |
| Flood Repair Fund:                   |   |
| General Fund Contribution            | 682   |
| Housing Revenue Account Contribution | <u>2,105</u>                                  |
|                                      | 2,787   |
|                                      | =====   |
| Capital Fund                         | 0   |
|                                      | =====   |
| Insurance Fund                       | 1,343   |
|                                      | =====   |

6.2 The general fund is made up of the following items:

|                                  |            |
|----------------------------------|------------|
| General Services – not committed | 7,135      |
| General Services – committed     | 2,058      |
| Devolved School Management       | (158)      |
| Winter Maintenance               | 0          |
| Central Energy Efficiency Fund   | <u>229</u> |
|                                  | 9,264      |
|                                  | =====      |

6.3 The most recent estimated outturn for the current financial year is a deficit of £3.2 million. This includes costs associated with the two flooding events in September and November of £0.4 million, and £1.3M for the costs associated with the severe winter weather during December and January. Due to the exceptional expenditure incurred by the Council during the current year it is recommended that the £700,000 for the Regional Sports Facility and £250,000 for the Council Office Accommodation be funded via the Capital Plan rather than Reserves. Based on the most recent estimates, the general services element of the general fund is expected to be about £6 million at the start of the new financial year.

6.4 The general fund is maintained to deal with unanticipated expenditure and the Council has previously recognised £5 million as a reasonable sum to maintain as a prudent general reserve. The Council recognises the need to implement large scale savings over the next four years and there will be a risk each year to the achievement of the savings required. As part of the savings agenda, the Council will also be faced with severance costs, and consideration will also need to be given to further investment in the support required to implement the Designing Better Services proposals. Therefore, it is likely that the General Services reserve will dip below £5M during 2010/11.

6.5 The Council is advised that a very cautious approach should be taken to reserves in an attempt to avoid any further erosion of the general services element of the general fund. The Council will probably need to accelerate future years savings during 2010/11 to replenish the General Services reserve.

6.6 Background details of the restricted balances referred to in the table in 6.1 are provided in **Appendix 8** to this report.

## 7. CAPITAL

7.1 The Capital Plan is funded from three sources as follows:

- Borrowing
- Capital Grants; and

- Capital Receipts (from asset disposals)

The Council is required to adhere to the Prudential Code when considering how much to borrow to fund the Capital Plan. The key factors in the Prudential Code are:

- Affordability; and
- Sustainability.

## 7.2 Affordability

Capital Expenditure is one component of the Council's annual expenditure and affordability must, therefore, be viewed in that overall context. The draft plan is affordable assuming revenue expenditure is maintained within the levels outlined in this report.

The Prudential Code indicates that in setting the Capital Plan, direct reference be made to the implications arising from Capital Expenditure on Council Tax. An increase or decrease of £1million in Capital Expenditure for a single year would result in an increase or decrease in loan charges of £70,000. This is equivalent to a Council Tax increase of 0.2%. The Council has refined its approach to planning capital expenditure over many years and whilst monitoring and reporting arrangements have improved, the Council has continued to experience underspends in the planned expenditure for each year. In the current economic climate there is more pressure than ever on the Council to deliver capital schemes and it is proposed that the planned expenditure for the year will exceed the income available by 10% based on the assumption that there will be 10% slippage during the year. In terms of affordability, the programme will need to be monitored very closely during the year and if slippage is not apparent during the year then action may be required to delay progress on projects to ensure that expenditure does not exceed available income. If the 10% slippage does occur then this will be carried forward to the following year and the same assumption will be made in future years in terms of the value of slippage and again the position will need to be carefully monitored during those years.

Capital Grant figures for 2011/12 onwards are not yet available and it will be clear from page one on **Appendix 9** that the level of grant funding is critical to the affordability of the Council's Capital Programme. The General Capital Grant figure is based on the Capital Grant received in previous years and it will be noted that these are higher than the grant to be issued for 2010/11. The figure for 2010/11 is lower because the Government accelerated payment of Capital Grant into the current year. Due to the uncertainty regarding Capital Grant, it is recommended that the Capital Plan for 2011/12 to 2014/15 is agreed as an indicative plan at this stage which should be subject to further review when Capital Grant figures are announced by the Scottish Government.

The Council has previously been advised about the uncertainty of grant funding for Flood Alleviation Schemes. The most up to date position is provided on **Appendix 10** to this report and this shows that by 31<sup>st</sup> March 2011, the Council will have spent £72.4 million on developing and/or completing the five major Flood Alleviation Schemes across Moray. The Government's contribution towards this expenditure will amount to £45.9 million which is £12 million short of an 80% contribution. At the present time, the draft Capital Plan assumes that this shortfall will be paid to the Council as part of the Capital Grants for the three years from 2011/12 to 2013/14. This is however, merely an assumption at this point and there is also an assumption that 80% grant funding will be provided to enable the Elgin scheme and the Forres (Findhorn and Pilmuir) scheme to go ahead. It is important to note that in the absence of formal confirmation about future grant funding, it is extremely unlikely that the Council would be able to commit to the remaining two schemes until such a statement is received.

### 7.3 Sustainability

Sustainability needs to be considered in terms of (i) whether the Council can continue to afford the levels of investment proposed and (ii) whether current levels of investment will result in assets being maintained and/or replaced within acceptable timescales.

The draft plan identifies additional borrowing requirements as follows:

|                           | 2010/11<br>£M | 2011/12<br>£M | 2012/13<br>£M | 2013/14<br>£M | 2014/15<br>£M |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| Core Capital Plan         | 8.1           | 8.9           | 8.8           | 8.5           | 11.0          |
| Flood Alleviation Schemes | 5.5           | 1.4           | 1.3           | 3.1           | -             |
|                           | -----         | -----         | -----         | -----         | -----         |
| Total Borrowing           | £13.6M        | £10.3M        | £10.1M        | £11.6M        | £11.0M        |
|                           | =====         | =====         | =====         | =====         | =====         |

### 7.4 Allowing for the repayment profile on the Council's existing debt of around £120M the net impact on loan charges each year will be:

|                          | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|--------------------------|---------|---------|---------|---------|
| Increase in Loan Charges | £0.5M   | £0.3M   | £0.3M   | £0.3M   |
|                          | =====   | =====   | =====   | =====   |

### 7.5 It should be noted that the increase in loan charges also varies due to the repayment profile of existing loans and the assumption that capital expenditure is incurred on average half way through each year.

- 7.6 A draft Five Year Capital Plan was provided to all Members on 1<sup>st</sup> December 2009 for consideration. The report identified the Asset Management principals upon which the plan was based and that a number of substantial reductions had been incorporated within the draft plan in an attempt to limit expenditure in line with the reduced borrowing that it is anticipated the Council will be able to afford during the next four years. Despite these reductions, the draft plan still exceeded available funding by on average £3.5 million per year. The Administration Group considered the draft plan on 7<sup>th</sup> December 2009 and again at a meeting on 11<sup>th</sup> January 2010. The revised draft plan attached as **Appendix 9** to this report incorporates the changes identified by the Administration Group which are listed on **Appendix 9a**.
- 7.7 In light of flooding events in September and November, the Policy and Resources Committee reviewed the funding commitments to a number of minor flood alleviation schemes and coastal repair works and the items approved by that committee are incorporated in the plan for the year ahead.
- 7.8 All Capital Plan allocations are subject to detailed reports being provided to and approved by the relevant service committees. These reports must include full details of:
- The work to be undertaken
  - The benefits associated with the project
  - A reliable estimate of costs.

If the project has any ongoing additional revenue implications, these must also be identified and the Service Committee must identify how these costs will be met before approving the project.

## **8. SUMMARY OF IMPLICATIONS**

### **(a) Corporate Development Plan/Community Plan/Service Improvement Plan**

As described in the Report to Policy Committee on 29th August, 2007, financial planning is integral to the Council's overall planning processes.

### **(b) Policy and Legal**

The Council is required by statute to set Council Tax for the year ahead by 11th March. However, to enable the Council to issue Council Tax bills and commence collection from the start of the new financial year, the Tax needs to be set by no later than 19<sup>th</sup> February.

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

Members have been provided with comprehensive papers relating to all of the resource and risk issues associated with changes to the Council's financial plan.

**(d) Consultations**

The Corporate Management Team have worked with the Administration Group to prepare the budget proposals and Capital Plan presented in this report.

At the Council Meeting on 4<sup>th</sup> November 2009, arrangements for wide-ranging consultation were agreed. A substantial volume of information was made available to the public on Council Budgets and the Administration Group's savings proposals. This information was available in hard copy at Council libraries and also on the Council's website. The Council held seven meetings throughout the Moray area to which representatives from Community Councils, Area Forums, Community Associations, and MVSO were invited. The consultation period was from 5<sup>th</sup> November to 15<sup>th</sup> December 2009.

The savings proposals were also provided to Trade Unions and ICE (Information and Consultation of Employees) representatives, the Equalities Forum and all Community Planning partners for consultation.

Responses to the Consultation proposals were co-ordinated by the Council's Communications Officer and were provided to all Council Members and also published on the Council's website.

Responses from Trade Unions and ICE reps were co-ordinated by Personnel Services.

**9. CONCLUSION**

9.1 Since the 4 year financial plan was agreed by the Council in May 2008 there has been a dramatic change in the finances for public services in the UK. The level of government borrowing is at unprecedented levels and it is expected that grant funding from the government will reduce significantly for at least the next 4 years.

- 9.2 The Council has recognised the need to identify savings of £20M for implementation by 1<sup>st</sup> April 2012 and that this savings target may well increase. Progress has been made with the identification of around £12M of savings which were included in the consultation and communication documents made available in early November 2009. At this time the Council is advised to set a revenue budget and capital plan for the year ahead. Consideration also needs to be given to continuing the review of council budgets with a view to identifying further savings in early course.

Author of Report: Mark Palmer, Chief Financial Officer

Background Papers:

Ref: MP/LMS/721996/723872/723963/733466/723887/723929/  
731944/729790/723933