Moray Council

Wednesday, 28 February 2024

NOTICE IS HEREBY GIVEN that a Special Meeting of the **Moray Council** is to be held at **Council Chambers**, **Council Office, High Street, Elgin, IV30 1BX** on **Wednesday, 28 February 2024** at **09:30.**

BUSINESS

1. **Sederunt**

2. **Declaration of Group Decisions and Members Interests ***

3. **Resolution**

   Consider, and if so decide, adopt the following resolution:
   "That under Section 50A (4) and (5) of the Local Government (Scotland) Act 1973, as amended, the public and media representatives be excluded from the meeting for Item 5 of business on the grounds that it involves the likely disclosure of exempt information of the class described in the relevant Paragraphs of Part 1 of Schedule 7A of the Act."

4. **Corporate Plan Progress Update 2022-2023** **5 - 26**

   Report by Depute Chief Executive (Education, Communities and Organisational Development)

Item(s) which the Committee may wish to consider with the Press and Public excluded

5. **Short to Medium Term Financial Plan [Para 1]**

   - 1. Information relating to staffing matters;

The Council will return to an open meeting following the consideration of the item above.

Watching the Meeting

You can watch the webcast live by going to:

http://www.moray.gov.uk/moray_standard/page_43661.html

Webcasts are available to view for 1 year following the meeting.

You can also attend the meeting in person, if you wish to do so, please come to the High Street entrance door and a member of staff will be let into the building.

GUIDANCE NOTES

* **Declaration of Group Decisions and Members Interests -** The Chair of the meeting shall seek declarations from any individual or political group at the beginning of a meeting whether any prior decision has been reached on how the individual or members of the group will vote on any item(s) of business on the Agenda, and if so on which item(s). A prior decision shall be one that the individual or the group deems to be mandatory on the individual or the group members such that the individual or the group members will be subject to sanctions should they not vote in accordance with the prior decision. Any such prior decisions will be recorded in the Minute of the meeting.

MORAY COUNCIL

Moray Council

SEDERUNT

Councillor Kathleen Robertson (Chair)
Councillor Donald Gatt (Depute Chair)

Councillor James Allan (Member)
Councillor Peter Bloomfield (Member)
Councillor Neil Cameron (Member)
Councillor Tracy Colyer (Member)
Councillor Theresa Coull (Member)
Councillor John Cowe (Member)
Councillor John Divers (Member)
Councillor Amber Dunbar (Member)
Councillor Jérémie Fernandes (Member)
Councillor David Gordon (Member)
Councillor Juli Harris (Member)
Councillor Sandy Keith (Member)
Councillor Scott Lawrence (Member)
Councillor Graham Leadbitter (Member)
Councillor Marc Macrae (Member)
Councillor Paul McBain (Member)
Councillor Neil McLennan (Member)
Councillor Shona Morrison (Member)
Councillor Bridget Mustard (Member)
Councillor Derek Ross (Member)
Councillor John Stuart (Member)
Councillor Draeyk van der Horn (Member)
Councillor Sonya Warren (Member)
Councillor Ben Williams (Member)

Clerk Name:	Tracey Sutherland
Clerk Telephone:	07971 879268
Clerk Email:	committee.services@moray.gov.uk

REPORT TO: MORAY COUNCIL ON 28 FEBRUARY 2024

SUBJECT: CORPORATE PLAN – PROGRESS UPDATE 2022-23

BY: DEPUTE CHIEF EXECUTIVE (EDUCATION COMMUNITIES AND ORGANISATIONAL DEVELOPMENT)

1. REASON FOR REPORT

1.1 To inform Committee of progress made during 2022-23 on the 2019-24 Corporate Plan.

1.2 This report is submitted to Committee in terms of Section III (A) (4) of the Council's Scheme of Administration relating to monitoring performance in accordance with the Council’s performance management framework..

2. RECOMMENDATIONS

2.1 It is recommended that the Council considers and notes the progress made during 2022-23 on the Corporate Plan 2019-24 as set out in Appendix 1.

3. BACKGROUND

3.1 The Corporate Plan is an important document that is intended to provide clarity and direction on the Council’s priorities, values and plans for the future. Its publication assists in communicating these to the public, the workforce and partners.

3.2 The plan provides the context for implementation, the constraints within which the Council must operate, the challenges and pressures and the organisational change required to successfully deliver the priorities. It provides a link between the national priorities, the Moray Community Planning Partnership’s plans and the Council’s own plans and priorities so that these can be cascaded into actions and delivery within service plans.

3.3 While the Corporate Plan provides focus, it is not intended to encompass each and every Council service that contributes directly or indirectly to the priorities or indeed those aspects of services which are less of a priority.

3.4 The Corporate Plan 2019-2024 and Delivery Framework were approved by the Council on 3 March 2020 (para 6 of the Minute refers). The Plan sets out Council's priorities and vision over the 5 year period and how the Council plans to progress these priorities, including the financial strategy aimed at progressing towards financial sustainability.

- Our People: Provide opportunities for people to be the best they can be throughout their lives with a strong and sustained focus on those individuals and groups in our society who experience the most disadvantage and discrimination;
- Our Place: Empower and support communities to build capacity;
- Our Future: Drive economic development to create a vibrant economy for the future;
- Sustainable: Work towards a financially stable council that provides valued services to our communities.

The Delivery Framework sets out more detailed actions which will be taken to achieve these priorities. Actions are refreshed annually as part of the Service Planning process. Any work outstanding is either incorporated within refreshed actions or completed at a departmental level.

3.5 Progress against actions incorporated within Service Plans are monitored and reported through service committees, as described in the Council's Performance Management Framework.

3.6 This report brings together reporting on all Corporate Plan actions during the reporting period across three levels;

- A high level overview of progress against actions and key performance indicators (para 3.8 below) with supporting narrative in (para 3.9 below);
- A more detailed analysis in **Appendix 1**. This identifies key performance indicators for each Corporate Plan action with a RAG table and donut chart giving a snapshot of progress of underlying actions and performance indicators**.** Overall RAG assessments of actions and key indicators, albeit subjective are based upon an appraisal of the cumulative impact of individual action lines and indicator updates;
- Hyperlinks to backing tables which provide the line by line detail for all
  - Actions - what we said we were going to do;
  - Performance Indicators - the evidence of change.

3.7 The reporting period for this report is from April 2022 and covers a time when pandemic response and recovery has become incorporated in normal service delivery as far as possible. Considerations from national and local planning, pandemic experiences, successes to date and challenges for the future, Moray data and evidence, community engagement and monitoring arrangements have provided context for the developing Corporate Plan.

3.8 **High Level Overview of Actions and Performance Indicators**: The following charts and tables provide a streamlined set of data that reflects performance against strategic priorities in the Corporate Plan. Overall activities are generally progressing, perhaps in some cases impact is evident in key indicator results.

Actions – percentage progress against each priority and overall based on updates to the Council's performance management software, Pentana.

CORPORATE PLAN PRIORITY - ACTIONS	RAG
Our People: Provide opportunities for people to be the best they can be throughout their lives with a strong and sustained focus on those individuals and groups in our society who experience the most disadvantage and discrimination	79%
Our Place: Empower and support communities to build capacity	52%
Our Future: Drive economic development to create a vibrant economy for the future	81%
Sustainable: Work towards a financially stable council that provides valued services to our communities	90%
Overall	78%

Performance Indicators – indicative rating based on key performance indicator results drawn from those included in the Corporate Plan Delivery Framework for each priority and overall.

CORPORATE PLAN PRIORITY – KPIs	RAG
Our People: Provide opportunities for people to be the best they can be throughout their lives with a strong and sustained focus on those individuals and groups in our society who experience the most disadvantage and discrimination	
Our Place: Empower and support communities to build capacity	
Our Future: Drive economic development to create a vibrant economy for the future	
Sustainable: Work towards a financially stable council that provides valued services to our communities	
Overall	

3.9 **Highlight of Achievements** – summarised from action updates and related reports to service committees through the reporting period

Our People: Children and Families – Provide opportunities where young people can achieve their potential and be the best they can be throughout their lives with a strong and sustained focus on those individual and groups in our society who experience the most disadvantage and discrimination

- Financial Inclusion Pathway rolled out and Worrying about Money Toolkit launched;
- Cost of the School Day Guidance distributed, staff report increased awareness of impacts on children and families;
- Improvements in attainment performance;
- Poverty related attainment gap narrowed by 1.7%;

- All schools achieved Bronze and Silver level awards with SCQF Ambassador Programme;
- Supporting all Learners Strategy approved;
- Percentage of pupils entering initial positive destinations improved to above comparator and national averages;
- Future of Inveravon School agreed with completion by August 2023;
- Findrassie Primary School new build operationally paused, request to transfer Scottish Government Learning Estate Investment Programme (LEIP) project status to Elgin High School extension project submitted;
- Scottish Government LEIP Phase 3 bids submitted for Forres Academy and Buckie High School in October 2022, subject to Scottish Government decision delays;
- Around half of all school condition surveys completed with the remainder planned anticipated by September 2024. All suitability surveys updated achieved ratings of B or better;
- Decreasing trend of children being cared for in foster / family placements, awareness raising and targeted work continued;
- Young people became involved in recruitment and tendering processes through Champions Board;
- Improvements to early intervention and reporting processes, resulted in cases open to Justice Services relating to Care Experienced Young People have reduced;
- Pilot project delivered with families to support parents to reduce use of drugs and alcohol and recognise the impact of use on their children;
- Safe and Together training delivered to over 150 staff

Our People: Adults – Optimise outcomes for adults and older people by enhancing choice in the context of a home first approach delivery through the IJB

- Demand remained high for Occupational Therapy (OT) equipment and adaptations, appointment to a senior OT assistant post impacted positively on complex adaptations waiting times, significant delays for substantial and moderate priority referrals;
- Social work assessment waiting times were reduced;
- Care hours increased by 3.3% due to increase in home care staff;
- Locality plans were informed by community engagement and consultation;
- Around one third of completed social housing dwellings were accessible.

Our Place: Empower and support communities to build capacity

- Two community asset transfers completed and community organisational assessments were carried out for three further proposals;
- Steering groups advanced play areas participatory budgeting in three locations;
- Engagement on Active Travel Plans commiting £50k across Buckie and Keith progressed;
- Completion of five sessions with young people around design and plan processes ahead of £20k grant programme;
- Mid-point delivery of 3-year Community Learning and Development Plan endorsed by the Community Planning Board;

- Locality planning continued in New Elgin and Buckie;
- Community Action Plans in partnership with anchor organisations in Lossiemouth, Forres and Keith nearing completion.

Our Future: Drive economic development to create a vibrant economy of the future

- First annual update for the Moray Growth Deal presented;
- Full Business Case preparation for Growth Deal projects advanced;
- Delivery phase for Digital Health commenced;
- 710 people engaged with a range of Employabiity Partnership offerings;
- Moray Pathways Sector Based Work Programme launched;
- 88 local employers made use of the Moray Employer Recruitment Incentive Scheme;
- Around 20% of parents in poverty participating in the Moray Pathways Progress to Parents Programme were supported into employment increasing their household income above poverty threshold;
- 600 pupils across 5 schools engaged with Climate Change Team during visits in Climate Week 2022;
- Moray Council Travel Plan updated and progressed;
- Smarter Working delivered office use review;
- Carbon literacy training delivered;
- Existing council fleet contained 44 electric vehicles, 59 electric vehicle charge points installed;
- Public Electric Vehicle Charging Strategy and Expansion Plan and Business Case submitted to Scottish Government;
- Final reports for Local Flood Risk Management Plans for Cycle 1 published. Cycle 2 Plans in place to take forward actions to address specific areas of risk.

Sustainability: Create a sustainable council that provides valued services to our communities

- Short to medium term Financial Plan and Strategy approved September 2023;
- Increasing number of services available digitally, around 43k digital submissions made using e-forms;
- Microsoft 365 developed and implemented;
- Progress across all areas of the 2022-22 Interim Workforce Plan despite residual impact on planned work due to longer term pandemic recovery demands.

4. <u>SUMMARY OF IMPLICATIONS</u>

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

The Corporate Plan sets out the council contribution towards the 10 Year Plan (Local Outcomes Improvement Plan).

(b) Policy and Legal
Consideration was given to relevant policy and legislative requirements and direction in its preparation. The Plan sets out direction for the Council which may influence the development of future policy and this will be reported where appropriate.

(c) Financial implications
The Corporate Plan recognises that the Council makes difficult decisions to continue to work within budget constraints. Setting out priorities assists in making those decisions.

(d) Risk Implications
The Corporate Plan employs robust risk management arrangements to the decision making process that will be used in the management and monitoring of the plan. It is increasingly important that there is strong political leadership, direction and resilience in the pursuit of the corporate agenda.

(e) Staffing Implications
None directly arising, however, the realignment of resources as the Council's business is reviewed may lead to workforce implications in future which will be reported when relevant.

(f) Property
None.

(g) Equalities/Socio Economic Impact
The Council's ongoing commitment to equalities is reflected in the Corporate Plan.

(h) Consultations
The Corporate Management Team and Senior Management Team have been consulted previously as part of performance reporting processes that inform the content of this report.

5. CONCLUSION

5.1 The Council has made progress against planned work in the four priority areas set out in the 2019-24 Corporate Plan. Strategic Service Plan activity aligned to existing Corporate Plan priorities has ensured focus is maintained in the final year of the Plan.

5.2 A number of indicators suggested a review of the Corporate Plan. An outline process and timeline was agreed by Council in January 2022. Progress reported in February 2023 noted that following a demanding autumn schedule further time to refine the political input and explore service implications was required, work continues.

Author of Report:	Louise Marshall, Strategy and Performance Manager
Background Papers:	Held with author
Ref:	SPMAN-2045703626-371

Corporate Plan > 2024: Progress Update 2022-23

1. INTRODUCTION

1.1 The Council’s Corporate Plan is the primary statement of what we aim to achieve for the area and the resources that we require to do this.

1.2 Our Plan sets out our vision: A life of opportunity for all where people can thrive in vibrant communities and we work together to enrich our future’.

1.3 It sets out our values: Fair in tackling inequalities and tailoring services; Ambitious - promoting Moray making it better for the most vulnerable; Improving - driving improvement and investing in the future; Responsive - involving and listening to communities.

And our priorities:

- Our People: Provide opportunities for people to be the best they can be throughout their lives with a strong and sustained focus on those individuals and groups in our society who experience the most disadvantage and discrimination
- Our Place: Empower and support communities to build capacity
- Our Future: Drive economic development to create a vibrant economy for the future
- Work towards creating a financially stable council that provides valued services to our communities

1.4 Any continuing activity relating to Covid has been incorporated within Service Plans.

1.5 Service Plan updates, reported to Service Committees, have been used to provide the progress updates which in some cases relate to longer term due dates.

1.6 Assessment of RAG status in tables is subjective, albeit based upon an appraisal of the cumulative impact of individual action lines and indicator updates.

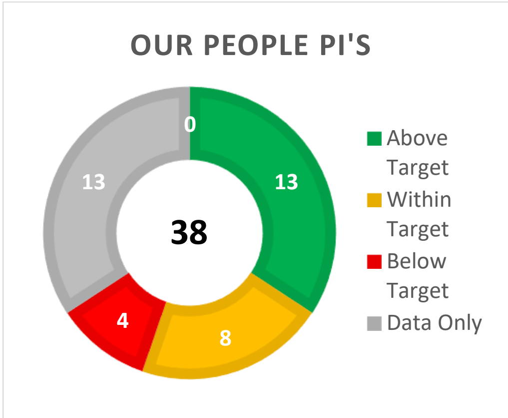
2. PROGRESS

PRIORITY 1:

Our People: Children and Families – Provide opportunities where young people can achieve their potential and be the best they can be throughout their lives with a strong and sustained focus on those individual and groups in our society who experience the most disadvantage and discrimination

OUR PEOPLE (CHILDREN & FAMILIES) - KEY PERFORMANCE INDICATORS AND TREND BASED ON PREVIOUS RESULT (note: due to timing results may not relate to reporting year)				
Attainment Gap	**BGE Attainment**	**Destinations**	**Looked after Children**	**Child Protection**
82% of Looked after leavers achieving 1+ awards at Level 4 (98% all leavers) 2021/22 75% / (97%) 2020/21	% of pupils achieving Level 3 / (Level 4) in S3: Literacy 72% / (37%) Numeracy 86% / (55%) 2021/22 No further updates	96.2% of pupils entering initial positive (LGBF rank 13 of 32) 2021/22 94.1% (LGBF rank 29 of 32) 2020/21	82% cared for in a community setting 2022/23 81.5% 2021/22	1.4 per 1,000 0-15 population on CP register 2022/23 2.3 per 1,000 2021/22
Improving	**Worsening Literacy & Numeracy / (Improving Literacy & Worsening Numeracy)**	**Improving**	**Improving**	**Improving**

Corporate Plan Priority – progress against actions	RAG
Children and Families – Provide opportunities where young people can achieve their potential to be the best they can be	82%
Children and Families – Improve health and well-being for people of Moray	79%
Adults – Optimise outcomes for adults and older people by enhancing choice in the context of a home first approach delivered through the IHB	64%
Overall	79%



Delivery Framework Planned Corporate Level Outcomes

<u>The attainment gap between most and least disadvantaged children will reduce</u>

2.1 The Financial Inclusion Pathway for parents / carers of children aged under 5 years was rolled out encouraging engagement with the Money Advice Service. The Worrying about Money Toolkit was distributed with council tax bills and incorporated in training for frontline professionals and volunteers who regularly work with families. Following work directly with 8 schools (5 primary and 3 secondary) on projects to support the development of action plans to reduce the cost of school day within the context of the school setting and community, Cost of the School Day Guidance was approved and rolled out across all schools and early learning settings and staff have reported increased awareness of the impact on children and families and being mindful that children have the resources at home. Making Every Opportunity Count training was made available for practitioners to build confidence in initiating conversations with families in relation to poverty. Although improvements in attainment performance are evident in the indicators aligned to the priority, results remain below the national average. Positive impacts of Scottish Attainment Challenge (SAC) funding aimed at delivering excellence and equity in education continued through a range of universal and targeted literacy, numeracy and wellbeing, curricular, transition, staffing and resource-based interventions. Nationally, stretch aims are set as a measurement of the poverty related attainment gap against Scottish Index of Multiple Deprivation quintile 1 and quintile 5; Moray achieved stretch aims for 1 or more SCQF level 5 and level 6 qualifications and the poverty related attainment gap narrowed by 1.7%.

<u>Improved attainment at both the Broad General Education and Senior Phase</u>

2.2 Stretch Aims continued to be reviewed and progress measured against these was acknowledged by the Education Scotland (ES) Attainment Advisor as positive work undertaken. Improving Moray's Performance and Children's Talents (iMpact Moray) was taken forward with all schools engaged with SCQF Ambassador Programmes, recording achievements at bronze and silver levels, Secondary Improvement Model visits were completed, and Primary visits almost completed. Following Care Inspectorate event feedback, further work was undertaken on quality improvement framework and processes to complement existing processes. Progress and Achievement and wider tracking tools rolled out to all schools. Literacy and numeracy attainment in P1, P4 and P7 combined improved from the previous year's results, however along with secondary attainment in literacy and numeracy, results remain below core stretch aim targets and national averages. Having reviewed the approach to supporting children & young people with additional support needs (ASN), the Supporting all Learners Strategy was approved for the next 5-year period.

<u>Young people are better prepared for life beyond school and for the workplace</u>

2.3 Employability skills and sustained, positive leaver destinations progressed through the implementation of the Local Employability Delivery Plan. The percentage of pupils entering initial positive leaver destinations improved from 94.1% to 96.2%, above comparator and national averages.

<u>A plan will be developed for an affordable, sustainable Learning Estate</u>

2.4 The future of Inveravon School was agreed with target completion by August 2023. Crossroads Primary School was mothballed from January 2023 and subject to further consultation with parents and the community with future options to be determined within the statutory period of 3 years. Findrassie Primary School new build was operationally paused in the latter months of 2022 to review project costs, design requirement and user need. Until determent, request to Scottish Government to transfer Learning Estate Investment Programme Phase 2 (LEIP) project status to Elgin High School Extension project. Temporary units in place at Elgin High School to increase school capacity in the period to 2026 allowing the feasibility study and development of concept design for a permanent extension to progress. LEIP Phase 3 bids submitted for Future Forres Academy and Future Buckie High School Project at the end of October 2022. Scottish Government decision delay impacting on formal project kick off although work on new build versus major refurbishment option appraisals and new build site identification for Forres advanced. As at March 2023, 24 of 54 school condition surveys have been completed with full completion anticipated by September 2024. All suitability surveys updated achieving ratings of B or better.

More of our children live with families and are cared for in strong, safe communities in Moray

2.5 Published benchmarking results reported in 2021/22, 80.6% of children were being cared for in foster/family placements rather than residential accommodation, a decreasing trend, below comparator and national average results and ranked in the lowest quartile. As at March 2023, 82% of looked after children were cared for in a community setting, below the local target of 87.5%. Foster carer and kinship awareness raising continued to take place alongside targeted work. The number of Nominated Carers used for short breaks has increased, the number of children in foster care and kinship care remained relatively stable over the last year. Work to reduce the time taken and number of placements a young person experiences before achieving permanence continues through Permanence and Care Excellence monthly meetings in addition to Tracking Meeting and Placement Oversight meetings, however impacts will only become evident in the longer term. Children and young people continue to positively feedback on their experiences within their kinship care placements which has been consistently reflected within social work review reporting. The Champion's Board has involved young people in recruitment and tendering processes and there is better representation on strategic groups.

Improve life chances and outcomes for care experienced children and young people

2.6 Identification and monitoring of care leavers and care experienced young people in the youth and criminal justice systems has advanced following improvements to early intervention and reporting processes from February 2021, ensuring there is a case management plan or Start AV assessment and plan in place to target support. As at March 2023, an improving trend is evident with 10.4% (40 of 433) of cases open to Justice Services relating to Care Experienced Young People. The voices of young people are being heard within the service through reviews and exit questionnaires used to inform future work.

Improved outcomes for our most vulnerable young people and families

2.7 The cost-of-living crisis and poverty remained the biggest concerns in relation to the impact of neglect on children and young people. Graded Care Profile 2 implementation, allowed for up to 20 trainers to be developed across the agencies. Development of a whole system approach to intensive family support for children and young people impacted by drug and alcohol continued with a pilot project delivering focused work with families to support parents reduce their use and recognise the impact of use on their children. The Safe and Together approach used to assess risk when children are living in environments where gender-based violence is a risk progressed with core training sessions delivered in November and February resulting in 75 trained staff being in place across the partnership, anticipated to increase to 190 trained staff. The Intensive Family Support and Mental Health and Wellbeing Partnership projects continued to be impacted by the withdrawal of quality improvement and service redesign support by national bodies. Health Improvement Scotland however provided support to develop the next steps for the projects. The pace of progress slipped due to competing priorities.

Our People: Adults – Optimise outcomes for adults and older people by enhancing choice and control in the context of home first approach

OUR PEOPLE (ADULTS) - KEY PERFORMANCE INDICATORS AND TREND BASED ON PREVIOUS RESULT (note: due to timing results may not relate to reporting year)

Independent Living	Independent Living	Independent Living
93% of adults able to look after their health very well or quite well (Scotland 91%) 2021/22 93% 2019/20	9,230 Emergency admissions (per 100,000 population) (Scotland 11,636) 2021/22 8,723 2020/21	72% of adults supported at home who agreed they felt safe (Scotland 80%) 2021/22 79% 2019/20
No Change	**Worsening**	**Worsening**

People are able to look after and improve their own health and well-being and live in good health for longer in home environments that support independent living

2.8 To enable people to have greater opportunity to remain independent within their communities, Health and Social Care Moray provides equipment and adaptations to meet needs. Demand for the service remained high, with an average of 210 referrals per month in 2022/23. The Senior OT Assistant post has had a positive effect on waiting times for more complex adaptations, however, there remained significant delays for Substantial and Moderate priority referrals for Occupational Therapists. Challenges continued with the supply chain for specialist equipment due to rising costs. Projects around case recording, adaptations criteria and referral prioritising have been completed resulting in process improvements.

<u>People are able to live independently at home or in a homely setting in their community</u>

2.9 As the population ages, the need for care at home continues to increase. Social work assessment waiting times have reduced due to increasing the flow across the system with completion using East and West teams allowing Care Enablers to support with 'waiting well' conversations whilst they wait for care to be made available. Care hours have increased by 3.3.% due to increase in home carer staff.

<u>People who use health and social care services have positive experiences of those services, and have their dignity respected</u>

2.10 Service users are provided choices and control over decisions affecting their care and support with all four locality plans informed by community engagements and consultations. Each locality has a network that included those living in the locality sharing feedback. Locality staff shared appropriate engagement responses with partners to minimise duplication.

<u>Assess and respond to the housing needs of older people in partnership with IJB</u>

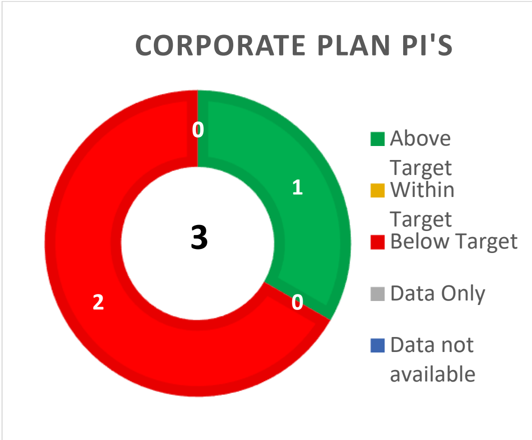
2.11 The Integration Joint Board (IJB) continued as a valued partner in the development of the Housing Need and Demand Assessment. A review of Council's sheltered housing ensured alignment with Health and Social Care Partnership priorities. In the 5-year rolling programme to 2023, on average around one third of completed social housing dwellings were accessible.

PRIORITY 2:

Our Place: Empower and support communities to build capacity

OUR PLACE - KEY PERFORMANCE INDICATORS AND TREND BASED ON PREVIOUS RESULT (note: due to timing results may not relate to reporting year)		
Community Asset Transfers	**Participatory Budgeting**	**Locality Planning**
5 of 8 completed 2022/23 3 of 8 completed 2021/22	23.99% of target spend achieved 2022/23 2.8% of target spend achieved 2021/22	3 new Community Action Plan in place 2022/23 1 new Community Action Plan in place 2021/22
Improving	**Improving**	**Improving**

Corporate Plan Priority – progress against actions	RAG
Empower communities to build capacity by becoming more informed, involved and influential in service delivery	**37%**
Improve our understanding of the issues in our communities based on the experience of local people	**60%**
Overall	**52%**



Delivery Framework Planned Corporate Level Outcomes

<u>Our communities' ability to address their own needs and aspirations is improved</u>

2.12 In supporting groups through the asset transfer process, community organisational assessments were carried out for Osprey Bus Group, Transition Towns, Forres Skate Park and Ray's Opportunities. Informal support has been given to community organisations in Buckie exploring expressing an interest in surplus property.

<u>Develop and implement Participatory Budgeting</u>

2.13 Participatory budgeting progressed in several areas with steering groups advancing Play Areas at Mannachie, Tomnavoulin and Letterfourie Parks. Pupil Equity Fund work around shortlisting, pupil group support and initial meetings was undertaken in St Thomas's, Keith, Seafield and East End Primary Schools. Engagement around active travel plans committing £50k across Buckie and Keith progressed. Design and plan process underway following five sessions with young people to support a £20k grant programme in 2023/24.

<u>More of our activities, services and plans are influenced by the communities they serve</u>

2.14 Delivery of the CLD Plan, at its mid-point of the 3-year cycle continued with monitoring undertaken by the Strategic Partnership and endorsed by the Education and Children's Services Committee and the Community Planning Board.

We are more successful in developing a shared understanding between the council and communities that helps us to design the future together

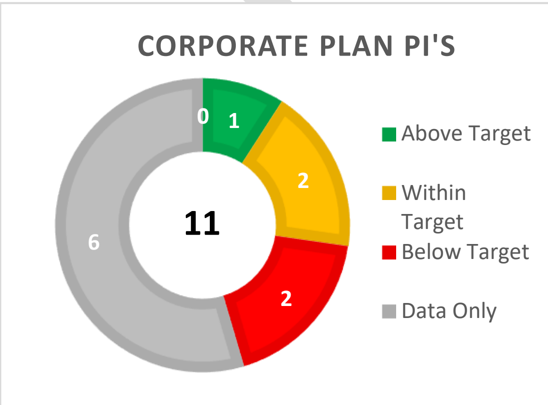
2.15 Progress in locality planning advanced; the New Elgin Locality Plan explored options for a base/hub in New Elgin. The Plan identified four themes with a subgroup supporting the delivery of a second food themed Family Fun event at UHI, involving 12 families and 40 participants. Start-up funding of £1,000 enabled two new community groups to form. Health walks with local partners developed following lack of mental health being an issue identified by the community. In Buckie, Community Lunches continued as a tool for effective engagement between the community and partners; in quarter 4 there were around 250 sign ins, 35 volunteers and partner group representatives from Active Travel, Moray School Bank, Health Promotions, Social Security, Peoplehood, In Motion Theatre and Fisherman's Hall. Plan progress is regularly scrutinised by the Monitoring Group. The development of Community Action Plans in partnership with anchor organisations in Lossiemouth, Forres and Keith neared completion. Engagement around a refreshed Corporate Plan was undertaken at a well-attended session in Elgin Town Hall involving over 30 representatives from community councils and community anchor organisations, elected members and Heads of Service.

PRIORITY 3:

Our Future: Drive economic development to create a vibrant economy of the future

OUR FUTURE - KEY PERFORMANCE INDICATORS AND TREND BASED ON PREVIOUS RESULT (note: due to timing results may not relate to reporting year)					
Tourism	**Youth population**	**Living Wage**	**Earnings**	**Pay Gap**	**Modern Apprenticeships**
£147.99m economic impact 2022/23	15.3% of 16-29 years olds within Moray population 2021/22	19.4% of people earning less than the living wage 2021/22	£598.80 median gross weekly wages 2021/22	£170.80 median gross earnings pay gap 2021/22	71.2% achievement rate in Moray 2022/23
£103.71m 2021/22	15.1% 2019/20	24% 2020/21	£565.50 2020/21	£165.60 2020/21	69.6% 2021/22
Improving	**Improving**	**Improving**	**Improving**	**Worsening**	**Improving**

Corporate Plan Priority – progress against actions	**RAG**
Create a step change in the regional economy to enable inclusive economic growth	**88%**
Work to protect and enhance our environment, creating a more resilient and sustainable future	**63%**
Overall	**75%**



Delivery Framework Planned Corporate Level Outcomes

<u>Increase economic impact of tourism in Moray and increase the level of 16-29 years living and working in Moray</u>

2.17 The regional deal is designed to boost economic growth across Moray by investing over £100m in eight strategic projects.

- Moray Aerospace, Advanced Technology and Innovation Campus (MAATIC)
- Business Enterprise Hub
- Cultural Quarter
- Housing Mix Delivery
- Early Years STEM (Science, Technology, Engineering and Maths)
- Bus Revolution
- Manufacturing and Innovation Centre for Moray (MICM)
- Digital Health

The first annual update for the Moray Growth Deal was presented to the Community Planning Board in March 2023 covering the period to December 2022. Activity focused on establishing the Growth Deal Programme Management Office, preparation of Full Business Cases and entering the delivery phase for Digital Health. Programme achievements over the period include –

- Full Business Case for Bus Revolution approved and preparation for the launch progressed pending Government clearance to enter delivery
- Ministerial launch of Digital Health
- Internal audit of the Moray Growth Deal completed resulting in enhanced controls relating to risk, assurance and reporting
- RIBA design stages for Business Enterprise Hub progressed following signing of Memorandum of Understanding by Moray Council and Robertson Construction
- Engagement activity for the Cultural Quarter commenced to help shape the vision for Elgin Town Hall and Grant Lodge
- Tender for Dallas Dhu Housing Mix Delivery site design work launched
- Offer received from Boeing for how they will support the Moray Aerospace, Advanced Technology Innovation Centre (MAATIC) facility

Pace of progress expected to increase significantly in the year ahead with activity subject to regular scrutiny by The Moray Growth Deal Programme Board.

<u>Better employment, skills and earnings, increase in higher skilled jobs and wage levels</u>

2.18 All planned actions in the Local Employability Delivery Plan, completed as scheduled.

In the reporting period 710 people engaged with a range of provision across the Employability Partnership, around 65% of those being young people. The majority (70%) progressed into learning and vocational skills training, 23% into employment and 7% to provision. The Department of Work and Pensions reported an increase in those assessed as not ready for work and in need of additional support in order to move closer to work, that led to an increase in referrals of adults to keyworker services delivered by the Employability Team. £800k of European Social Fund funding was commissioned to test and learn from a new Moray Pathways Sector Based Work Programme that matches individuals into opportunities providing pre-work placement vocational skills training within key growth industry sectors, work placements and in-work support into employment. The Moray Employer Recruitment Scheme attracted 88 local employers to use the incentive scheme to recruit a matched individual to skills development paid job placements for 6-12 months. Moray Pathways Progress to Parents programme resulted in 17% of parents in poverty progressing into employment, increasing their household income to above the poverty threshold.

<u>Achievement of targets, indicators and outcomes identified in Climate Change Action</u>

2.19 An update to The Route Map to Net Zero (RMNZ) was approved by the Economic Development and Infrastructure Service Committee in May 2023. Key actions delivered or progressed include –

- During Climate Week 2022, the climate change team with partners visited 5 schools, met with 600 pupils and connected with teachers
- Moray Council Travel Plan was updated and actions to encourage walking and cycling as travel choices progressed
- Albeit delayed, the NESS energy from waste plant became fully operational in June 2023, diverting all of Moray's waste from landfill, reducing emissions
- Smarter Working project delivered depot, store and office use reviews to identify and remove surplus assets, permit use of shared facilities, all contributing to lowering emissions from buildings
- Climate change and biodiversity added as a consideration to all committee papers
- Carbon literacy training delivered

It has been difficult to give confidence that there is sufficient progress in decarbonisation of building heat and electricity categories to ensure that net zero target will be met without excessive carbon sequestration offset. The difficulties and expense of converting buildings to reach net zero means if delays are experienced then emissions relating to buildings may not reduce sufficiently within target timescales.

<u>Increased provision and use of electric vehicles and plant with supporting infrastructure</u>

2.20 To date the council's existing fleet contains 44 electric vehicles (EV), 10% of the overall fleet. Difficulties in the supply chain and price inflation are extending the lead time for vehicles and infrastructure, making migration to a zero-emission vehicle fleet increasingly complex.

The Council took advantage of Government grant funding to support EV charging infrastructure to install 59 electric vehicle charges points as at March 2023, however there is no grant funding for the operation and maintenance of the publically available chargers. The Scottish Government has set up a new fund, the Electric Vehicle Infrastructure Fund (EVIF). In order to access the Fund, the Council met the requirement to prepare and submit a Public Electric Vehicle Charging Strategy and Expansion Plan with a supporting Business Case in December 2022, its aim to direct new infrastructure to locations which support demand, identify their commercial viability and in turn assist in attracting investment to Moray, reducing risk and removing the requirement for revenue funding for the on-going operation and maintenance of these assets.

<u>Implement surface water infrastructure improvements in vulnerable flood risk areas</u>

2.21 The final reports on the implementation of the North East Local Flood Risk Management Plan and the Local Flood Risk Management Plan for Findhorn, Nairn and Speyside for Cycle 1 were agreed by the Economic Development and Infrastructure Committee in November 2022 and noted the following key outcomes delivered by the Council on time and within the resources allocated since the interim report in December 2018 -

- Continued maintenance of Flood Schemes
- Updated planning guidance with regard to Drainage and Flooding
- Maintenance to reduce wider flood risk set out in the Schedule of Clearance and Repair published annually
- Review of the updated Enhanced Sewer Model for Forres and Scottish Water

Cycle 2 Plans identify specific areas of risk in Moray and actions to address, most of which will be undertaken by the Council's Flood Team within existing resources, however further investigation for projects subject to Scottish Government grant funding in Cycle 2 remained ongoing.

PRIORITY 4:

Sustainability: Create a sustainable council that provides valued services to our communities

SUSTAINABLE COUNCIL - KEY PERFORMANCE INDICATORS AND TREND BASED ON PREVIOUS RESULT (note: due to timing results may not relate to reporting year)		
Financial Planning 1.2% of recurring expenditure funded from free general reserves 2022/23 0% 2021/22	**Online Services** 67% of pupils matched on Parent Portal 2022/23 53% 2021/22	**Change Management** 34% of employees experiencing change that were satisfied with the way the change management process was handled 2019/20 – no further updates
Worsening	**Improving**	**No change**

Corporate Plan Priority	RAG
Council's Financial Strategy	50%
Modernisation and Improvement: transformation to achieve	93%
Developing Workforce	100%
Developing Workforce: transformation and change	100%
Overall	90%

Delivery Framework Planned Corporate Level Outcomes

Council's Financial Strategy

2.22 The 2023/24 Budget and 2023-26 Financial Plan was presented to Council on 1 March 2023 and a report on short to medium term financial planning was presented to Council on 28 June 2023. Revisions to both were submitted in a report to Council on 27 September 2023. The Short to Medium Term Financial Strategy agreed by Council in September 2023 sets out the main financial levers available to the Council within budget preparation for the period to March 2026.

Modernisation and Improvement: Transformation to achieve

2.23 Review of the ICT and Digital Strategy reflected on the increasing number of services available digitally to the public to include Short Term Lets, Nursery and 2-Year-Old Registration, Council Tax, Housing Rent / Points and Positions and Parents Portal. Availability of online services to Children's Social Work Services developed through improved web presence. In the reporting period there were around 43k digital submissions using e-forms and an increase in the number of Council website users is evident. Microsoft 365 was developed and implemented and roll out was well advanced. Where there was a strong business case, upon system contract renewals, having systems hosted and moved to the cloud are now a consideration.

Developing Workforce

2.24 Since the approval of the 2020-22 Interim Workforce Plan, there has been a residual impact on planned work, due to the demands of the longer-term recovery response to the pandemic, nevertheless there has been progress in most areas of the plan. The next stages of workforce planning activity are set out in the Workforce Strategy 2023-26.

3. BACKGROUND PAPERS

Throughout the reporting period, related reports have been submitted to Service Committees, these are included as links below for reference purposes.

PRIORITY 1	Cost of the School Day Update and Guidance: Appendix School Estate – Crossroads Primary School Status Update Moray Progress in Implementing the Scottish Attainment Challenge Programme: Appendix Information Report: Children's Services Plan 2023-26: Moray Children's Services Plan 2023-26 Analysis of Secondary School Leaver Attainment 2021-22 Learning Estate – Closure of Inveravon Primary School Statutory Consultation Report: Appendices 1, A, A1, A2, A3, B, C, D, E, F, G, H, I Initial Analysis of Achievement of Curriculum for Excellence Levels 2022: Appendix Parental Involvement and Engagement: Appendix Childrens Services Plan Annual Report 2021-22: Appendix Improvement and Modernisation Programme - Raising Attainment Curriculum Breadth and Digital Progress Update: Appendix 1, Appendix 2 Supporting All Learners Strategy: Appendix Learning Estate Strategy and Delivery Programme: Appendices 1, 2, 3 Scottish Attainment Challenge: Appendix 1
PRIORITY 2	Partnership Community Learning and Development Plan Update; Appendix 1 - KPIs, Appendix 2 – Work Plan, Appendix 3 – Self-Evaluation
PRIORITY 3	Moray Growth Deal Update – First Annual Review: Appendix 1, Appendix 2, Appendix 3 Moray Economic Strategy 2022 Moray Pathways Local Employability Partnership Quarterly Update Moray Pathways Local Employability Partnership Delivery Plan: Appendix 1 Apprenticeship Strategy Annual Progress Report 2022-23: Appendix A Economic Recovery Plan Delivery 2022-23: Appendix A Climate Change Plan and Route Map to Net Zero; Appendix 1, Appendix 2, Appendix 3 Climate Change Strategy Update: Appendix 1, Appendix 2 Information Report – Public Sector Climate Change Reporting: Appendix 1

	Electric Vehicle Infrastructure Fund Strategy and Expansion Plan: Appendix 1 Update on Zero Emission Fleet Replacement Strategy Annual Report on Energy Strategy Actions: Appendix 1, Appendix 2 Moray Hydrogen Strategy: Appendix 1, Appendix 2 Local Heat and Energy Efficiency Strategy Active Travel Strategy and Action Plan: Appendix 1, Appendix 2, Appendix 3 Local Flood Risk Management Plan Cycle 2 Findhorn Nairn and Speyside 2022-28: Appendix 1, Appendix 2 Local Flood Risk Management Plan Cycle 2 North East 2022-28: Appendix 1, Appendix 2
PRIORITY 4	Short to Medium Term Financial Planning: Appendix 1, Appendix 2, Appendix 3 2022/23 Revenue Out-turn Variances from Budget: Appendix 1, Appendix 2 Capital Plan 2022-23: Appendix 1, Appendix 2 Treasury Management Performance Indicators 2022-23, Appendix 1, Appendix 2 Employment Policy Framework Review 2022-23, Appendix 1a, Appendix 1b, Appendix 2a, Appendix 2b 2021-23 Workforce Planning, Appendix A, Appendix B ICT Digital Strategy and Plan 2023-26, Appendix 1, Appendix 2

REPORT TO: **MORAY COUNCIL ON 28 FEBRUARY 2024**

SUBJECT: **2024/25 BUDGET AND 2024 TO 2027 FINANCIAL PLAN**

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

1. REASON FOR REPORT

1.1 To ask Council to set the level of Council Tax for 2024/25, to agree the Council's revenue budget for 2024/25 and to consider the Council's Financial Plan for 2024 to 2027.

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) (22) and (23) relating to the approval of the annual estimates of capital and revenue expenditure for all services.

2. RECOMMENDATION

2.1 It is recommended that the Council approves :

(i) A Council Tax freeze for 2024/25;
(ii) **Provision of £9,288,000 for budget pressures as listed in APPENDIX 2;**
(iii) Budgeted expenditure of £278,833,000 for 2024/25;
(iv) Indicative budgets for 2025/26 and 2026/27 as set out in APPENDIX 1;
(v) Funding of £83,805,000 for Moray Integration Joint Board (MIJB) as set out in paragraph 6.6;
(vi) Transfers from the ear-marked reserve for Council priorities of £1,000,000 into free general reserve and £1,500,000 into the ear-marked reserve for transformation of services and renaming the residual amount in the Council priorities reserve as an ear-marked reserve for workforce planning; and
(vii) Use of ear-marked reserves totalling £701,000 for transformation, £1,136,000 for Moray Growth Deal cash flow and of £10,225,000 from covid reserves to balance the budget.

2.2 It is recommended that the Council notes:

- **(i) The conditions placed on the Council in terms of the settlement letter from the Depute First Minister, subject to any announcements by Scottish Government;**
- **(ii) Uncertainty around the impact of the transfer of £145.5 million funding for teachers to specific grant; and**
- **(iii) Projected additional savings requirements of £13,521,000 in 2025/26.**

3. BACKGROUND

3.1 The Council's revenue budget for 2024/25 falls due to be considered in a difficult economic environment. A recent report by the Institute of Fiscal Studies noted that taxation is at historically high levels, and with a cross party consensus to reduce the debt-to-Gross Domestic Product ratio, options for funding public services are constrained . Globally, the economic outlook is uncertain, mainly due to geo-political events. Further to that report, the UK has reported a technical recession in the second half of 2023. Allowing for funding for UK and Scottish Government priorities, unprotected budgets (including local government) are likely to face continued real cuts in funding. Interest rates appear to have peaked but that is not certain given the range of opinion at the last meeting of the Bank of England Monetary Policy Committee. This is a difficult environment in which to make financial decisions and prudence must be the watchword.

3.2 The Local Government Settlement is for one year only but the Council is setting its 2024/25 budget in the context of longer term planning.

Strategic Approach

3.3 The Council approved a Short to Medium Term Financial Strategy on 27 September 2023, setting out plan to achieve a balanced budget for 2024/25 and 2025/26, with reliance on reserves removed by 2025/26. Following the previously agreed hierarchy of Transformation – Income generation – Savings the strategy set out three strands of activity: transformation, income max and savings max. For 2024/25 only minor savings from small scale transformation were envisaged, with greater emphasis in 2025/26 on transformation and looking to the Council for the future, linking in to the Medium to Long Term Financial Strategy. Income generation covered Council Tax, charges for services and wider opportunities to generate and maximise income. Not all the opportunities to generate additional Council Tax income being discussed at that time are available to the Council now. Savings Max was seen as identifying the maximum possible savings which could be generated by reshaping and reducing service provision and recognised as necessary given the need to make significant budget reduction in a very short time frame. A review of the Council's indicative 10 year Capital plan was also recognised as necessary.

3.4 The Council approved a Medium to Long Term Financial Strategy on 25 October 2023. The strategy identified the main cost drivers for council services and considered a range of scenarios based around variations in those cost drivers. It recognised that the financial road map for the medium to long term had to be developed with a focus on transformation. On 12 December 2023 the

Council approved a range for savings from the Savings Max portfolio and also approved an Income Strategy for implementing Income Max in the context of the Scottish Government announcement of a Council Tax freeze and withdrawal of proposals to amend the banding ratios; and also a revised Charging for Services policy. A revised capital plan was approved by Council on 28 January 2024, and the need to cap capital expenditure agreed. These together form the strategic approach taken by the Council and the background to this budget report. In addition regular reports on the financial planning process have been made throughout the year. The latest report was considered by the Council on 24 January 2024 (paragraph 9 of the Minute refers) following prior to financial circular 8/2023 (containing provisional grant details) being published on 21 December 2023. Since that report a review of the opening position and of budget pressures has been carried out in the light of quarter 3 monitoring and adjustments made to reflect the capital plan for 2024/25 approved at that meeting of Council (paragraph 11 of the Minute refers). Further savings are recommended.

3.5 The Council operates in an ever-changing environment and its strategic approaches must be flexible in order to reflect this. The sudden emergence of a significantly higher underlying recurring overspend in MIJB in July 2023 compared to when MIJB set their budget in March 2023 followed by the announcement by the First Minister of a Council Tax freeze in October 2023 sharply changed the working assumptions of the Short to Medium Term Financial Strategy, firstly by significantly increasing the target savings to balance the budget in the short term and secondly by severely impairing the key lever which the Council had to increase income by significant levels. At a very late stage in preparation for the budget Scottish Government advised that £145.5 million shown as fully distributed in finance circular 8 / 2023 (issued 20 December 2023) was to be distributed as specific grant, conditional on teacher number retention. The detail of the conditions and provisionally allocated amounts are still to be confirmed.

Income

3.6 The Council receives around 80% of its revenue funding from Scottish Government. Over the last eleven years, this grant funding has increased marginally in cash terms, and by considerably less than the cost of new duties required of local authorities. The cash increase in local government funding in 2023/24 is almost entirely in respect of Scottish Government requirements. 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. The Council has made savings totalling £58 million since 2010/11 and it is increasingly difficult to identify areas where further savings can be made whilst delivering the statutory duties of a local authority.

3.7 Income from Council Tax receipts is the other main source of income for the Council. The collection rate dropped in the early stages of the pandemic, with normal debt collection processes paused. With a return to normal debt management practice the collection rate has steadily increased, although it currently remains below pre-pandemic levels. It is unclear at this juncture whether the current high levels of inflation are likely to impact significantly on the collection rate but it clearly heightens the risk for the Council of default by Council Tax payers.

Reserves

3.8 For a number of years the Council relied on the use of free general reserves – and latterly ear-marked reserves - to balance the budget. The Council had been steadily reducing its reliance on reserves and only budgeted to use £10,000 (to cover one-off expenditure) to balance the 2021/22 budget. In that year, the Council was able to retain £1.9 million under the Business Rates Incentivisation Scheme (BRIS) and also planned to use financial flexibilities granted for the pandemic, both time-limited funding, totalling £3.1 million. The base expenditure budget was therefore still overcommitted. That overcommitment was carried forward into 2022/23, with increased expenditure to cover inflation and other budget pressures unmatched by proposed savings requiring the use of reserves of £13.9 million to balance the budget. The underlying overspend in 2022/23 was carried forward into 2023/24 and increased marginally, in an environment of significantly increased inflation. In year savings have reduced this and the Council starts planning for 2024/25 with an underlying overcommitment of £12.798 million. However, added to that overcommitment is an overcommitment by Moray Integrated Joint Board which, if not eradicated, is anticipated to increase the call on the Council's funds by a further £5 million. Changes to government grant funding also impact on savings required and there have been two major changes of note: a reduction in core funding and transfer of £145.5 million from General Revenue Grant to specific grant, with a risk that the conditions of the grant (as yet unspecified) are not fulfilled and so the funding not received. **APPENDIX 1** therefore shows an overall savings requirement in 2024/25 of £ 19.196 million, with savings of £7.445 million already approved. Further savings of £1.052 million are proposed (see section 5 of this report) and the budget is proposed to be balanced by use of £10.225 million covid reserves, which have been used as a working balance for the past two years.

	Budgeted use of general / working reserves		Actual (est act 2023/24)	
	£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%	-	0%
2021/22	0.010	0.0%	(5.838)	
2022/23	13.881	5.4%	1.562	0.7%
2023/24	15.423	5.9%	14.945	5.5%
2024/25	10.225	3.7%		

3.9 The Council needs to retain a certain amount of free reserves in case of unforeseen contingencies or emergencies. The Council's reserves policy as approved by Council on 15 September 2021 (paragraph 29 of the Minute refers) is to hold £5 million as free reserves. This equated to around 2% of budgeted revenue expenditure on General Services. The Reserves Policy falls due for review in autumn 2024. £5 million currently represents 1.7% of the Council's budgeted expenditure and in advance of the detailed review a transfer of £1 million from the Council's ear-marked reserves for Council priorities is proposed, as a matter of prudence, to bring the balance in free general reserves up to 2% of the revenue budget for 2024/25. This level of reserves will be reviewed in detail later in the year using the risk based approach which the Council's Reserves Policy recommends.

3.10 Following the late receipts of monies from Scottish Government in March 2021 an ear-marked reserve for covid-related expenditure was set up. Some of the monies were specifically related to various strands of covid-related activity such as education recovery, some were completely general disbursements. All the unused late receipts were transferred to this ear-marked reserve for ease of management. This is a temporary reserve, enabling the Council to manage its finances through a time when recovery from the pandemic was a greater focus than reform of service delivery. This reserve stood at £22,897,000 at 31 March 2023 and a balance of £11,602,000 is projected for 31 March 2024. This ear-marked reserve is seen as a short-life reserve and appropriate to be used to fill the budget gap to facilitate development of plans to do so sustainably. The budget proposals in this report will see this reserve exhausted by 31 March 2025.

3.11 The balances projected for 31 March 2024 for all ear-marked reserves are set out in **APPENDIX 1** to this report. Use of the ear-marked reserve for transformation to fund the second stage of the Improvement and Modernisation Programme was approved by Council on 12 May 2021 (paragraph 13 of the Minute refers) with projects costed at £5,061,000 being approved. Progress against these has been reported to committees. A further £1.9 million had been approved in principle but detailed plans had not been brought forward and as the project was not anticipated to generate savings it has been put on hold in the current financial climate. A balance of £4,699,000 for this reserve is projected for 31 March 2024 with further approved spend anticipated to reduce the balance to £3,998,000 by 31 March 2025. The current balance is a modest sum which the Council has set aside against the need to generate further savings of £12 million within the next two years and it is proposed to transfer a further £1.5 million from the reserve for Council priorities, in recognition that the Council must transform its services to become a sustainable Council for the future and this is the Council's top priority. This increases the projected balance at 31 March 2024 to £6,199,000 and at 31 March 2025 to £5,498,000 as reflected in **APPENDIX 1**.

3.12 There are current commitments in respect of voluntary early retirements approved by Council on 30 January 2024 against the ear-marked reserves for Council priorities. The reserve currently stands at £5,634,000. This provides an element of contingency for additional costs which will be incurred by the policy of no compulsory redundancies – the cost of this has been estimated as £2.7 million but that is currently under review. The recommended transfers of £2.5 million to free general reserves (£1 million) and transformation (£1.5 million) would leave a balance of £3.1 million for future workforce planning.

3.13 As yet there has been no call on the £4,000,000 ear-marked to support loans charges for borrowing for Moray Growth Deal in advance of grant payment. It is now anticipated that monies will start to be drawn down in 2024/25. The likely cost of loans charges was estimated prior to recent increases in interest rates and this reserve may be exhausted prior to sufficient grant being received to cover costs.

3.14 An ear-marked reserve arising from the exercise of financial flexibility regarding service concessions is estimated at £11.2 million as at 31 March 2024. This has been approved to be set aside to pay loans charges on new / refurbished schools). The indicative capital plan approved on 24 January 2024 envisaged this being used in total to cover Learning Estate Improvement Programme (LEIP) funded projects prior to LEIP funding coming on stream. This reserve differs from the other revenue reserves as it is not cash-backed – it arises from the retrospective application of the service concession flexibility and is therefore purely an accounting construct. As such it is not considered appropriate to use to cover revenue deficits.

4. REVENUE BUDGET

4.1 The draft revenue budget for 2024/25 to 2026/27 is set out in **APPENDIX 1** to this report.

4.2 The starting point for the 2024/25 budget is the budget for 2023/24. The brought forward Devolved School Management (DSM) balance and other funding from ear-marked reserves is removed and budgets adjusted to reflect the reinstatement of temporary savings and the full year effects of budget adjustments made for part of 2023/24 only. The picture is complicated by commitment of ear-marked reserves, by funding for schools where funding is made on a financial year basis but implemented on an academic year basis and by slippage in the implementation of some new requirements. The resultant starting point for the 2024/25 budget is expenditure of £268,129,000. A summary of the adjustments to the 2023/24 budget is set out below:

	£000s
Budget reported to Council 6/12/2023 (Q2 budget monitoring)	268,781
Less funded from DSM etc	(1,646)
Redeterminations announced later	1,935
Other savings agreed	(368)
Budget pressures reduced	(573)
Budget to be carried forward	268,129
Adjustments to c/f budget:	
Reinstate one-off savings	1,928
Deduct one-off expenditure	(6,497)
Opening budget	263,560

Provision for pay and prices

4.3 Provision of £5,400,000 is made within the budget for pay awards and for some other inflationary increases in expenditure. A deduction of £870,000 is made in respect of pay awards for adult social care staff and this is discussed in section 6 of this report.

4.4 Although the rate of inflation has dropped in recent months is continues to run above the UK Treasury target of 2%. The amount allowed for pay awards is one of the high risk areas of the proposed budget. An allowance for a 3% increase has been included as the highest affordable level.

4.5 Other standard inflationary increases included are for PPP/PFI contracts, fostering fees and allowances, ELC partner providers and school and other transport contracts. Electricity and gas prices continue to be particularly volatile and in recognition of the significant increases in cost currently projected this is included under budget pressures.

Financing costs

4.6 No charge is made to the revenue budget for loans repayment or interest until the year after which the loan is taken out. Consequently the budget for 2024/25 shows the estimated impact of planned capital expenditure in 2023/24. An increase of £800,000 has been allowed for. Interest rates have been increasing and continue to do so, albeit the rate of increase has slowed recently. For comparison, interest on loans paid in 2022/23 was 2.1%, the rate used to set the budget for 2023/24 was 4.9%, the current rate is 5.17% and 5.6% has been used as an estimate in setting the budget. Treasury Management is the subject of another report on the agenda for today’s meeting.

New burdens

4.7 New burdens are created for local government by legislation passed by the Scottish Government. The budget of £1,283,000 comprises the funding in the draft settlement for additional expenditure to be incurred by the extension of universal free school meals plus the balance of the funding for the expansion of free school meals in the settlement for 2023/24 but not yet used rolled forward.

Budget pressures

4.8 Provision is also made within the draft budget for budget pressures which are not funded by Scottish Government. Some of these have already been approved by Council, some recognised as pressures in previous budget papers and some are newly emerging pressures. These are listed in **APPENDIX 2** to this report **and paragraphs 4.9 and 4.10 below** and total £9,258,000 for 2024/25. Indicative amounts are also shown for 2025/26 and 2026/27 where these are currently quantifiable. 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. Budget pressures recognised within the draft budget for 2024/25 are discussed below.

4.9 Funding for schools under the Devolved School Management scheme is formula-driven, with the majority of funding distributed on the basis of school roll numbers. A high level estimate of the impact of the latest school census is included at £243,000. The Council's approved revenue contribution to the Moray Growth Deal project for Early Years STEM is included at £62,000. £596,000 expenditure on improving educational attainment, part of a sum approved by Council on 15 September 2021, is included as a one-off budget pressure – this is to be funded from the ear-marked reserves for transformation. Provision of £635,000 is made for increased costs of electricity and gas, in line with the estimates reported to the Economic Development and Infrastructure Services Committee on 14 November 2023 in the Annual Energy Report. Provision of £30,000 for the Deposit Return Scheme has been rolled forward and will be revised when details of the scheme are announced. Backfill costs of £57,000 for additional Trades Union facility time was approved by Council on 24 May 2023 as a budget pressure in 2024/25. An increase in employers' contributions to the teachers' pension scheme from 23% to 26% from 1 April 2024 was announced in late 2023 and a budget pressure of £1,500,000 is recognised. The budget assumes that this will be funded by Scottish Government increasing General Revenue Grant, funded by Barnett consequentials. This is yet to be confirmed. Additional funding of £11.5 million is included in the settlement for uprating personal and nursing care – this is mandated to be passed to Integration Joint Boards and Moray's share - £80,000 – is therefore included as a budget pressure.

4.10 Paragraph 4.9 details recurring budget pressures of £2,607,000 and a one-off budget pressure of £596,000, totalling £3,203,000. The balance of the centrally held provision for budget pressures is £5,000,000 held as a contingency for the balance the Council would be expected to fund of MIJB overspend if the currently level of expenditure continues unabated. It is not held with a view to being spent but rather as a prudent measure, recognising the high risk to the Council that it will be called upon to fund unbudgeted expenditure by MIJB in 2024/25.

4.11 The budgeted net expenditure of the Council also increases by £9,167,000 with the transfer of funding for the expansion of Early Learning and Childcare from specific grant into General Revenue Grant. This is not an increase in budgeted expenditure, rather a movement in funding.

4.12 With these additions the total budgeted revenue expenditure for 2024/25 before savings is £287,750,000.

Funding

4.13 The bulk of the Council's funding is from government grant, given as a combination of General Revenue Grant (GRG) and Non Domestic Rates distribution. The finance circular 8/2023 includes funding of £202,155,000, of which £79,000 relates to expansion of universal free school meals (a new burden). Estimates have been made for undistributed amounts where the corresponding expenditure in included in base budget: Discretionary Housing Payments (£706,000) and Scottish Disability Assistance (£69,000).

4.14 The funding package for pay awards for 2023/24 is complicated. An addition to GRG of £510,000 is respect of Pupil Equity Fund balances to be used in 2023/24 as cash towards the pay award and refunded later have been included.

4.15 Funding of £2,485,000 conditional on a Council Tax freeze- has been included. GRG has also increased by £9,167,000 by the transfer of Early Learning and Childcare specific grant. Increased funding of £1,500,000 for the increased cost of teachers' pension contributions has been included, although this is contingent on Barnet consequential funding from UK Government being confirmed after the UK Spring Budget.

4.16 A letter for the Cabinet Secretary for Education and Skills to COSLA on 12 February 2024 set out Scottish Government's intention to transfer £145,500,000 from General Revenue Grant to Specific Grant, contingent on agreed teacher numbers being maintained. At the time of writing this report the details of the Specific Grant conditions are not known in detail, nor has the target number of teachers for Moray been agreed. Accordingly this is considered a high risk area, and the estimated amount of Specific Grant is removed from the budget for Scottish Government funding, increasing the budget gap. The potential for the funding to be received is recognised in **APPENDIX 3**. This area will be kept under close review.

4.17 With these amendments budgeted funding from Scottish Government totals £215,396,000.

4.18 A Council Tax freeze in line with the condition placed on part of GRG (paragraph 4.15) is assumed. The funding conditional on the Council Tax freeze is a significant sum to be foregone and would require an increase of 10% to generate additional income in that order of magnitude. The funding is also recurring and that strengthens the argument for meeting the conditions of this funding. The growth in Council Tax income reflected in **APPENDIX 1** arises in part from assumed growth in the Council Tax base but mainly from the introduction of a levy on second homes as approved by Corporate Committee on 30 January 2024. It also reflects a reduction in entitlement to Council Tax Reduction comparing September 2023 to September 2022.

4.19 Proposed Council Tax by banding is listed in the table below. These figures do not include charges for water and waste water which are collected alongside Council Tax on behalf of Scottish Water, nor do they take into account any Council Tax Reduction, discount or exemption which may be due in individual cases. Scottish Water are proposing to increase their charges by 8.8% in 2024/25. As these are collected by the Council along with Council Tax there is a risk that this increase may adversely affect the in-year collection rate. The increased proportion collected owing to Scottish Water will also affect the Council's income due to the way in which onward remissions to Scottish Water is collected, with the amount due to be remitted based on a percentage of income ingathered, irrespective on whether the dwellings in question have mains water or sewerage. Moray has a high proportion of properties with private water supplies.

	Council Tax 2023/24	**Council Tax proposed 2024/25**
Band A	£953.79	£953.79
Band B	£1,112.76	£1,112.76
Band C	£1,271.72	£1,271.72
Band D	£1,430.69	£1,430.69
Band E	£1,879.77	£1,879.77
Band F	£2,324.87	£2,324.87
Band G	£2,801.76	£2,801.76
Band H	£3,505.19	£3,505.19

4.20 The resultant budgeted income to the Council for 2024/25 leaves a shortfall of income compared to expenditure of £19,196,000, which requires to be found from savings, which failing from reserves.

5. SAVINGS

5.1 Savings totalling £7,445,000 have been approved to date. Indicative savings of £474,000 from the Improvement and Modernisation Programme are also included.

5.2 Further savings for 2024/25 totalling £348,000 are presented to Council today in a separate report. The budget set out in **APPENDIX 1** includes these in the "Further savings proposed" line which totals £1,052,000 and also contains the savings discussed in paragraphs 5.3 and 6.5 below. These savings are understood to have cross party support and are provisionally included in the draft budget on that basis. A further £208,600 savings for 2024/25 have previously been presented to members for consideration. A summary list of both these sets of potential savings is included as **APPENDIX 4** to this report, with savings 1-9 being those currently included. **APPENDIX 4** summarises all savings previously presented to Council on 25 October 2023 (paragraph 14 of the Minute refers) bar those currently the subject of consultation (Leisure and Libraries service) and constitutes what was referred to in that report as Savings Max. Details of the savings including links to Integrated Impact Assessments (IIAs) are set out in the confidential report to this meeting of Council with the numbering being the same across the appendices to both reports. These IIAs will be published if relevant savings are approved.

5.3 The Council's budget includes a vacancy factor to reflect time lags in appointing replacement staff when staff leave and also that new staff are generally appointed at a lower point on the salary scale point. It is proposed that this factor is increased by £250,000 to reflect the estimated out-turn in 2023/24 and thereafter pro rata to the average pay award for 2024/25 to non-teaching staff.

5.4 That reduces the funding shortfall to £10,225,000. It is proposed that the gap is filled by using funds held in the covid reserve, in accordance with the purpose of this reserve (see paragraph 3.8). This is an interim solution for 2024/25, and increases the balance of savings required in 2025/26 from £3,296,000 per **APPENDIX 1** to £13,521,000.

5.5 Members from the Administration Group have reviewed expenditure on supplies and services with a view to identifying areas for small scale savings with minimal impact on service delivery. It is intended that these will be discussed with officers and if possible, brought back as savings proposals in early course, along with further proposals for in-year savings in 2024/25 when these have been developed. It is imperative that further savings are made as soon as possible given the projected budget gap in 2025/26.

5.6 Areas identified as having potential to generate savings to help bridge the gap are listed in **APPENDIX 3** to this report. This includes an estimate of the impact of the specific grant for teacher numbers, should conditions for receipt of this be met. No estimate of savings likely to be generated by energy efficiency measures is included, but proposals are being developed, as reported in the annual Energy report, and savings are also anticipated to be generated from the leisure and libraries review and from further development of asset management, in particular the depot review and these will be the subject of future reports. Following an Internal Audit report on sundry debt measures to benchmark debt management will be put in place and it is anticipated that savings may be generated from improved management of sundry debt.

6. MIJB

6.1 The Council approved the delegation of Children's Services to MIJB as from 1 April 2023 with 2023/24 being a transitional year, during which all financial risks and rewards sat with the Council, i.e. any overspend would be met by the Council, any underspend returned to the Council. From 2024/25 the budget for Children's Services is subsumed within the overall MIJB budget.

6.2 The settlement includes additional funding of £11.5 million for uprating Free Personal and Nursing Care and £230 million to deliver a minimum £12 per hour pay settlement for adult social care workers in commissioned services via agreed contract uplifts. The distribution for the latter element has yet to be agreed.

6.3 As a delegated service MIJB has complete freedom to decide how the budget is used. However, the responsibility for setting the budget to be transferred to MIJB sits with the Council. In common with recent years there are conditions on funding for adult social care set as part of the settlement, and the Council must comply with those. The letter from the Deputy First Minister to Council Leaders and Chief Executives states:

"The funding allocated to Integration Authorities for Free Personal and Nursing Care and adult social care pay in commissioned services should be additional and not substitutional to each Council's 2023/24 recurring budgets for adult social care services that are delegated. This means that, when taken together, Local Authority adult social care budgets for allocation to Integration Authorities must be £214.5 million greater than 2023/24 recurring budgets to ensure funding from Health and Social Care Portfolio contributes to meeting outcomes in this area. Where there is evidence funding is not passed across to be used for the policy intent, the Scottish Government reserves the right to look at reclaiming this."

6.4 Accordingly the Council is restricted in what it can decide regarding funding for adult social care. In particular it cannot apportion part of the budget gap as a savings target for adult social care. This is a matter being pursued by Cosla. A pro rata share of the budget gap would be £2.9 million. This falls to be met by other Council services. As a measure of protection to those services – in recognition that the core Council funding from Scottish Government has been reduced – it is recommended that no funding is passed to MIJB is respect of pay awards for adult social care. This results in the reduction in provision for pay and prices of £870,000 set out in paragraph 4.3. The Council has passed on as recurring funding to MIJB the pro rata share of Scottish Government funding for pay awards and it is considered consistent with that to retain the saving from the reduction in pension contributions by treating this as non-recurring funding.

Funding for the adult social care element of the transfer to MIJB would therefore be:

	£000s
Budget for adult social care @ 31 January 2024	61,579
Less non- recurring funding: Adult Protection, MHO, National Trauma	(137)
Less non-recurring expenditure: reduction in pension contribution	(660)
Recurring adult social care	60,782
Share of £11.5m (FPNC)	80
Share of £230m (estimated – to be confirmed)	3,910
	64,772

6.5 There are no such restrictions on Children's Services and it is proposed that this service is treated on a par with other Council services. Funding for this element of the transfer to MIJB would therefore be:

	£000s
Budget for Children's Services @31 January 2024	19,663
Savings already approved: care placements Reduction in investment	(245) (4)
Reduction in pension costs	(227)
Inflation uplift for pay award	300
Savings target (pro rata share of budget gap, spread over 2 years)	(454)
	19,033

6.6 These two elements taken together would mean an opening base budget contribution from the Council to MIJB of £83,805,000.

7 RISK

7.1 The Short to Medium Term Financial Strategy specifically identifies risk as an important component of short to medium term financial planning. The importance of considering risk is heightened as the Council's reserves are depleted, as that reduces the capacity the Council has to absorb unexpected or unplanned costs. As highlighted in the Financial Planning report to Council on 27 September 2023 a budget risk table has been developed and this is included at paragraph 7.2 below.

7.2 The following budget risks are currently recognised. These cannot be quantified at present but a scale of potential magnitude is indicated in the budget risk table where this has been estimated.

Service area	Budget risk	Scale of magnitude
Cross cutting	Inflation linked contracts / Real Living Wage	
	Pay awards	1% of the non teaching payroll is £1m
Moray Integration Joint Board	Overspend for 2023/24 continues	Based on current core overspend, in the region of £4m and the inclusion of a £5 million budget pressure helps to mitigate the potential impact of this risk
Additional Support Needs	One-off funding in 2023/24 may require to be made recurring Growth in need	£ 2.6m one-off funding in total, including £0.4m in 2024/25
Winter weather	Anything other than a mild winter has the potential to result in overspend	£700,000 overspend in 2022/23

Service area	Budget risk	Scale of magnitude
Legal fees for specialist work regarding appeals / claims against the Council and fees arising due to staff shortages	There is no budget for appeals / claims. Savings in staff salaries partially offset fees for work which would normally be carried out in house, but external fees are higher than staff salaries	
Interest rates	Cost of borrowing continues to increase	The Council budgets for £6m loans interest repayments. An increase of 1% in interest rates would result in an increase of £1.5m
Debt management	Invoices not raised timeously Payment not pursued / debt not actively managed	 The Council wrote off £222,000 in 2022/23.

7.3 All of these factors mean that while the structural deficit remains and as further fluctuations in the budget gap are inevitable, progress to remove that deficit must continue with pace and urgency.

7.4 In addition to cumulative risks around workforce, equalities, socio-economic and rights impacts set out in the summary of implications below, more general risks to the Council also arise from the cumulative impact of savings on the Council and these will increase as the scale of savings increases. Generally, a reduction in staff without a reduction in the Council's activities and duties leads to a less resilient organisation. This can be manifested in a number of different ways: reduction in capacity for partnership and cross service working; reduction in capacity to response to emergencies; reduction in capacity to support and develop Council staff. In addition to this staff vacancies can also impact on capacity and on service continuity.

8. <u>SUMMARY OF IMPLICATIONS</u>

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

(c) Financial implications

The Council's funding gap arises from an underlying overspend in 2021/22 which has never been removed but rolled forward, pressures from inflation and service requirements and reduced core government funding.

Savings have been identified, however, a significant funding gap remains and it is proposed to fill this by use of ear-marked covid reserves in 2024/25

A continued and heightened budget gap is therefore forecast for 2025/26. Early action to tackle this projected funding gap is required with further savings to be identified in year in 2024/25.

(d) Risk Implications

The forecast deficits for 2024/25 and 2025/26 represent a significant risk to the Council.

The proposed budget for 2024/25 is subject to the following specific risks:

- The level of the pay award is unknown at present but claims are currently running above the provision proposed in the budget.
- 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 such pressure if possible and may have to reduce service levels or identify further savings. The provision made for contract inflation may not cover all calls upon it
- Budget pressures may exceed the available allocation. The Corporate Management Team will be responsible for closely monitoring the issues identified and will report any emerging issues to committee.
- Unforeseen factors can impact on the Council's position. There is no allowance made for unforeseen contingencies.
- Council Tax income may be less than anticipated, depending on the collection rate, rate of growth of Council Tax base, income from the levy and loss of income under the Council Tax Reduction Scheme and other reliefs.
- 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 cost of borrowing for capital expenditure will increase if the cost of borrowing continues to rise.
- 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.
- The impact of extreme weather events is unpredictable and can be costly. Such events are increasing in frequency.

- The MIJB has a significant operating deficit 2023/24. A recovery plan is being developed but given the need for lead-in to changes in services provision an overspend in 2024/25 is almost certain. The Council is obliged to meet its share of any overspend, despite having no influence on the operation of the Board.

(e) Staffing Implications
Staffing implications arise indirectly from some budget pressures in this report. The increase in school rolls will be recognised through the DSM scheme which could result in recruitment of staff and extension of universal free school meals may also entail staffing increases. Significant savings requirements imply reduction in staff numbers.

(f) Property
There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

There are no proposals in this report which directly impact on this area. Impacts are set out in IIAs in the accompanying confidential report and these will be published where relevant savings are agreed.

(h) Climate Change and Biodiversity Impacts
There are no implications for climate change and biodiversity arising from this report.

(i) Consultations
CMT and Heads of Service are involved throughout the budget process, which underpins this report.

9. CONCLUSION

9.1 Savings of £9 million are included in the draft budget for 2024/25.

9.2 The Council's proposed revenue budget for 2024/25 requires use of ear-marked reserves to balance.

9.3 Significant further savings are forecast to be required in 2025/26 and early action is required to tackle this issue.

Author of Report: Lorraine Paisey, Chief Financial Officer
Background Papers:
(SPMAN-1293228629-1031)

APPENDIX 1

BUDGET OVERVIEW AS AT 27 FEBRUARY 2024

	2023/24	2024/25	2025/26	2026/27
	£000s	£000s	£000s	£000s
Revenue Expenditure				
Service allocations (assuming prior year savings are achieved)	248,752	268,129	269,608	270,631
Adjustments	(701)	(5,569)	(859)	(50)
Opening budget	248,051	262,560	268,749	270,581
Add provisions				
Pay and price increases	3,293	4,530	4,590	4,650
Increase in loans charges	2,000	800	1,500	3,600
New burdens	3,701	1,283	-	-
Budget pressures	17,905	9,258	508	256
Specific Grant (Early Learning and Childcare) baselined		9,167		
Service Developments	528	176		
Total expenditure	275,478	287,804	275,347	279,087
Revenue funding				
Scottish Government				
Core General Revenue Grant / NDRI	201,930	200,961	201,966	203,178
Funding for Council Tax freeze		2,485	2,485	2,485
Funding for teachers' pensions		1,500	1,500	1,500
ELC funding baselined		9,167	9,167	9,167
New burdens	3,701	1,283	-	-
Council Tax	49,974	51,375	55,321	59,124
Funding from reserves				
Release from Repairs and Renewals	704			
Transformation	785	701		
Council priorities	247			
MGD cash flow		1,136	193	
Covid (working reserve)	11,141			
Service concession				3,000
Total income	268,479	268,608	270,631	278,453
Savings required	**7,349**	**19,196**	**4,715**	**634**
Recurring savings approved	5,050	7,333	595	
Non-recurring savings	1,928	112	-	
Further savings proposed		1,052	454	
Indicative savings from IMP	371	474	370	
Savings to be identified		**10,225**	**3,296**	**634**
Total savings required	7,349	19,196	4,715	634
Estimated balance on Reserves				
Free General Reserve	6,000	6,000	6,000	6,000
Covid reserve (working reserve)	11,602	11,602	11,602	11,602
Transformation	6,199	5,498	5,498	5,498
Council priorities	3,134	3,134	3,134	3,134
MGD cash flow	4,000	2,864	2,671	2,671
Service concession	11,200	11,200	11,200	8,200

APPENDIX 2

BUDGET PRESSURES

	Approved	2024/25	2025/26	2026/27
		£000s	£000s	£000s
Education				
School roll numbers		243	338	217
ASN (recurring)	28/06/2023	434		
ASN (non-recurring)	28/06/2023	325		
Teachers' pension contribution increase		1,500		
Economic Growth & Development				
Local Plan examination			50	
Moray Growth Deal – EY STEM	MC 3/3/21	62		39
Environmental & Commercial				
Deposit Return Scheme	MC 1/3/23	30		
Corporate / cross service				
Clearance Bilbohall site (loans charges)	MC 3/3/21		120	
Revised IMP	MC 12/5/21	596		
Electricity / gas increase		635		
Trades Union facility time	MC 1/3/23	57		
Uprated NDR		290		
ICT software		36		
MIJB passported funding				
Uprated Free Personal and Nursing Care		80		
Not to be allocated				
Contingency for MIJB overspend		5,000		
TOTAL		9,288	508	256

APPENDIX 3

BUDGET ON A PAGE

	2024/25	2025/26	2026/27
	£000s	£000s	£000s
Revenue Expenditure	287,804	275,347	279,087
Revenue Funding	268,608	270,631	278,453
Savings required	19,196	4,715	634
SAVINGS APPROVED			
Transformation			
Children's Services	263	245	
Lean review	235	181	
Information hubs	100		
Smarter Working	28		
Income generation	2,201	105	
Asset Management	142	50	
Procurement	259	7	
Workforce Strategy			
Services Savings	3,105	377	
Additional funding	1,586		
TOTAL SAVINGS APPROVED	7,919	965	
Revised balance of savings required	11,277	3,750	634
EMERGING SAVINGS			
Children's Services savings target	454	454	
Increased vacancy factor	250		
Further savings proposed	348		
Total	1,052	454	
Remaining budget gap OPTIONS TO BRIDGE THE GAP	10,225	3,296	
Energy efficiency (spend to save)			
Debt management			
Leisure and libraries review			
Asset Management			
Specific Grant (teacher numbers) – estimate	2,500		
Total	2.500		

APPENDIX 4

SAVINGS SUMMARY

No.	Description	2024/25	2025/26	2026/27
		£000s	£000s	£000s
1	Facilities Management	20		
2	Building Standards	24		
3	Building Standards	18		
4	Trading Standards	38		
5	Central education support	50		
6	Performance monitoring	52		
7	Financial review	24		
8	Money Advice	66		
9	Training	56		
	Sub total	**348**		
10	Strategic Planning	33		
11	Environmental Health	48		
12	Charge for cash payment – sundry debts	0.6		
13	Charge for cash payment – Council Tax	11		
14	Open spaces facilities management	56	6	
15	Open spaces maintenance		160	
16	Support for external bodies	20		
	Sub total	**208.6**	**166**	
	Total	**556.6**	**166**	

REPORT TO: **MEETING OF MORAY COUNCIL ON 28 FEBRUARY 2024**

SUBJECT: **HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSAL 2024/25**

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

1. REASON FOR REPORT

1.1 This report presents details of the proposed Housing Revenue Account (HRA) Budget Proposal for 2024/25 for approval.

1.2 This report is submitted to Council in terms of section (II) (1) of the Council's Administrative Scheme relating to the setting of rent levels for council houses, garages etc.

2. RECOMMENDATION

2.1 It is recommended that the Council:

(i) considers and notes changes since the Housing Business Plan was reviewed in 2022 and the proposed review of the business plan in 2024/25, as detailed in section 3;

(ii) considers and notes details of the rent restructure which has been undertaken, as detailed in section 4;

(iii) agrees the proposed HRA Budget for 2024/25 (APPENDIX I) and Housing Investment Plan (APPENDIX II), including the level of HRA reserves in line with the Housing Reserves Policy as detailed in paragraph 7.13;

(iv) considers and notes the results of consultation with tenants on options for the 2024/25 rent increase as detailed in section 6;

(v) agrees Council house rents increase of 7.7% for 2024/25;

(vi) agrees that garage rents are increased by 7.7% for 2024/25;

(vii) agrees that grass cutting charges are increased by 7.7% for 2024/25;

(viii) agrees provision of £200k for service developments, as detailed in paragraph 8.17; and

(ix) notes the three-year projection to 2026-27 (APPENDIX III).

3. HRA BUSINESS PLAN

BACKGROUND

3.1 The Housing Business Plan was first developed in 2005 when Councils were required to demonstrate that they had the financial means to improve their housing stock to meet the Scottish Housing Quality Standard (SHQS). At that time, Moray Council's Business Plan was developed by Arneil Johnston Consultants, working alongside Council staff.

3.2 The Business Plan assesses the affordability and feasibility of Council plans in relation to housing over a 30-year period. It considers risk scenarios and tests the affordability of the Plan against these potential risks. The Business Plan is reviewed on a three-year cycle and provides the assurance that the Council is able to fund its housing activities within the constraints of the accounting regime for housing.

3.3 The Business Plan was last fully reviewed in 2022 and was reported to Moray Council on 22 February 2022 (paragraph 5 of the minute refers). The 2022 Review identified that the Council could afford to build 50 new properties per annum over the next 3 years based on a rent increase of CPI plus 1%.

3.4 Although the Business Plan was not due to be substantively reviewed for a further two years, given the extent of macro-economic changes over the past two years, notably the significant increases in inflation and interest rates, a limited interim review was undertaken in 2023 to ensure the impact of these material changes are adequately considered when setting the budget and planning for future years.

3.5 The sustained increase in borrowing costs, comprehensive restructure of rents and accelerated investment programme represent material changes to some of the assumptions which underpinned the Business Plan, therefore provision will be made to commence a review in 2024, to be considered when setting the budget in 2025.

4. RENT RESTRUCTURE

4.1 The Council's Rent Setting policy has been in operation since 2006. Subsequent reviews in 2010 and 2013 related to the new build premium only. In 2021, as part of the HRA Business Plan review, Arneil Johnston were commissioned to analyse the level of rents and inconsistencies in the current rent structure. This review identified that the Council's current rent structure had 386 different rent levels with wide variations in the rent values, with a lack of consistency in rent levels across property sizes.

4.2 At its meeting on 21 November 2023, Housing and Community Safety Committee (Paragraph 10 of the Minute refers) was informed of the rationale and requirement for a revised rent setting structure which would:

- provide a fair, consistent, transparent and accountable model for setting rents;
- ensure that rents are affordable for tenants;
- generate the income required to support investment; and
- ensure that the Housing Revenue Account (HRA) remains financially viable.

4.3 Committee was advised that as part of the review process, all Council tenants were contacted and invited to provide feedback, via the completion of a questionnaire, on the principles of rent restructuring and to give their opinions on the potential property characteristics which could be considered for rent setting and on the methodology for applying service charges. Tenant feedback was used to inform the review process and the restructure of the rent setting framework.

4.4 The revised rent structure set out in the revised Rent Setting policy used to calculate the weekly rent adopts a combined approach, which uses a minimum baseline rent, varied using a points-based scheme, based on the attributes relevant to the property. The number of different rent levels will decrease from 386 to 28, whilst the ratio of properties to each rent level will increase from 28 to 227.6.

4.5 The baseline rent has been developed around the rental charge for a two-bedroom, semi-detached property, which is the most common property size and type in the Council housing stock. The points-based scheme is calculated according to values awarded to the characteristics and amenities of each property, which are applied uniformly. The attributes which are taken into account are:

- Property size (number of bedrooms)
- Property type (e.g. house or flat, mid or end terraced, detached or semi-detached, etc.)
- Energy rating (based on the Energy Performance Certificate (EPC) rating)
- Parking (private or shared parking)
- Additional toilet
- Garden (private or shared)
- Sheltered housing (heating charge applicable to Larch Court, Elgin only)

4.6 The consultation process ran from 22 November 2023 until 5 January 2024 and a briefing for Elected Members took place on 5 December 2023, prior to the consultation feedback being reported to Housing and Community Safety Committee for approval of the revised structure on 13 February 2024. Following Committee’s approval of the revised Rent Setting Policy, arrangements will be made to enable a “go live” date of 1 April 2024, in line with rent setting for 2024/25.

5. HOUSING INVESTMENT PLAN

5.1 The proposed Housing Investment Plan for 2024/25 – 2026/27 is detailed in **APPENDIX II**.

5.2 The Housing Investment Plan reflects the investment priorities which tenants identified within the most recent tenant survey and regulatory requirements. The Council has also recently undertaken a stock condition survey to direct future investment in our properties, including replacement of older/inefficient heating systems as well as delivery of other home improvements (i.e. new kitchens, bathrooms, windows, etc.).

5.3 The Business Plan provides for the level of investment required to meet Scottish Housing Quality Standard (SHQS) and Energy Efficiency Standard for Social Housing (EESSH) standards. This indicates that the level of investment activity will increase significantly in future years and a project board is being constituted to coordinate and monitor the planning and expanded capacity needed to deliver the enhanced output. Projections in this area will remain subject to economic influences and supply chain variables, however being managed as a multi-year programme, this oversight will manage fluctuations in cost and availability. This may, however, lead to single year variances within the overall programme, which is typical of a multi-faceted plan of this scale and complexity.

5.4 In addition to the routine repairs and maintenance of the Council's housing stock, the key focus of the Housing Investment Plan remains on investing to meet the provisions of the SHQS and the EESSH.

5.5 Whereas the Council is generally performing well as a landlord across the range of benchmarked performance indicators, there is an identified need for improvement in relation to SHQS and EESSH.

5.6 As at 31 March 2023, 15% of our stock met SHQS, compared with 61% of our peer group, 71% for local authorities and 79% for all benchmarked landlords (including housing associations). Moray Council's performance had dropped from over 90% in 2020/21 following an enhancement of the standard to include both the energy efficiency provisions of EESSH and in 2022/23 further enhancements in relation to fire safety and electrical safety certification. Accordingly, the Council's attainment fell significantly against the higher standards and remedial programmes have been developed to improve this position.

5.7 A programme of electrical inspection and certification to meet the enhanced requirements of SHQS has been undertaken in the course of 2023/24, with an improvement plan reported to Housing and Community Safety committee on 21 November 2023, projecting a milestone of 55% compliance by 31 March 2024 and completion by 30 November 2024.

5.8 The second key component of SHQS which requires improvement is EESSH. As at 31 March 2023, 62% of our stock met EESSH, compared with 87% of our peer group, 88% for local authorities and 91% for all benchmarked landlords. An improvement plan is being developed to accelerate delivery of energy efficiency programmes, which will significantly improve this position in 2024/25 with the aspiration of bringing performance in line with the above local authority benchmark by the end of the reporting year and accordingly an increased budgetary provision has been allocated for this purpose. Whilst the budget has been set based on realistic output levels, should market capacity to deliver in excess of this be established within the budgetary year, the service may seek additional approval in order to optimise deliverable improvements for tenants.

6. RENT INCREASE CONSULTATION

6.1 Section 25 of the Housing (Scotland) Act 2001 allows landlords to increase rent (or any other charge payable) under a Scottish secure tenancy so long as they give tenants at least four weeks' notice of the increased rent due to be paid. Before they issue this notice, landlords must consult with tenants affected by the proposal and be able to demonstrate how they have taken regard of their views in reaching a decision about rent increases.

6.2 The HRA Business Plan is predicted upon annual rent increases being above the rate of inflation, based on the Consumer Price Index (CPI) + 1%. This represents a 7.7% increase to Council house rents (an average weekly increase of £5.20). In order to meet the HRA Business Plan requirements and ensure continued financial viability, it was determined that the Council consult tenants on options which were equivalent to and above this amount.

6.3 The consultation for 2023/24 ran from 22 November 2023 until 5 January 2024, with surveys issued to all tenants by letter or email according to their communication preference.

6.4 Tenants were invited to express their preference for one of two options based on what each option will allow us to deliver:

Option one – 7.7% i.e. CPI + 1%

Option two – increase rents by 11% i.e. Business Plan optimum

6.5 A total of 659 responses were received, representing a 10.6% response rate, which is in line with previous years:
562 tenants (87.3%) opted for Option one – 7.7%
82 tenants (12.7%) opted for Option two – 11%

6.6 Given the clear preference for option one, this is the recommended rent increase for 2024/25.

6.7 Based on this rent increase and the revised rental structure, the Council's rents will remain the lowest amongst local authority landlords and will continue to be affordable across the range of property types and sizes. The forthcoming business plan review will also ensure the rental income is sufficient to maintain statutory requirements and tenant aspirations.

7. PROJECTED HRA OUTTURN 2023/24

7.1 On 1 March 2023, the Council agreed its HRA Budget for 2023/24 (paragraph 5 of the Minute refers). Reports on budgetary performance have been presented to Housing and Community Safety Committee throughout 2023/24.

7.2 The most recent HRA budget monitoring report presented to the Housing and Community Safety Committee on 21 November 2023 (paragraph 12 of the minute refers) identified the main variations in the projected outturns to 31 March 2024, which have subsequently been updated with the most recent position as follows:-

Expenditure

Supervision and Management

7.3 Supervision and Management - An underspend of £189k is projected. This variance results from projected underspend in staffing costs (£139k) and a reduction in void costs (£50k).

Sheltered Housing

7.4 There is a projected underspend of £5k anticipated arising from energy costs.

Repairs and Maintenance

7.5 An underspend of £452k is projected. This is comprised of underspends of £1,024k in planned/cyclical maintenance and £16k in response repairs, partially offset by overspends in voids (£274k), DLO deficit (£244k) and property fees (£70k). The main component of this underspend is the profiling of the electrical certification, which commenced later than anticipated due to market capacity to deliver and is now profiled to complete later in 2024.

Financing Costs

7.6 An overspend of £238k is projected due to estimated higher interest costs on borrowing.

Bad and Doubtful Debts

7.7 No variance is projected.

CFCR

7.8 The level of Capital from Current Revenue (CFCR) is projected to be £765k higher due to underspends elsewhere across the HRA budget, which will offset anticipated borrowing.

Downsizing Incentive Scheme

7.9 An underspend of £9k is projected, which reflects an increase in activity compared to recent years. This represents an improved level of activity, following a considerable reduction during the pandemic period.

Service Developments

7.10 No variance is projected, with the remaining balance being utilised to facilitate the rent campaign in March 2024.

7.11 Total expenditure on the HRA is projected to be £348k lower than budgeted.

Income

7.12 Total income to the HRA is projected to be £348k higher than originally budgeted for 2023/24, with £317k additional interest on revenue balances projected due to the higher interest rates and other income of £79k partially offset by £48k lower rental income due to the delayed completion of new build properties in Keith and a discount being applied to temporary accommodation rentals.

HRA reserves

7.13 Overall, a surplus balance of £2.250m is projected for the HRA budget in 2024/25. This is determined as a prudent level of reserves under the terms of the Housing Reserves Policy approved by Housing & Community Safety Committee on 15 November 2022, incorporating:

- £500k - minimum policy provision;
- £500k - risks associated with the development programme in current market conditions;
- £750k – risks associated with the housing investment programme in current market conditions; and
- £500k – provision for inflation, including any additional pay award or other cost increases in 2024/25.

8. PROPOSED HRA BUDGET 2024/25

8.1 As in previous years, Officers have considered in detail the base budget agreed for 2024/25. Each cost centre within the HRA budget is scrutinised by the Head of Housing and Property, Finance staff and the budget service managers and this has included an assessment of the continued impact of economic conditions on both income and expenditure.

8.2 **APPENDIX I** details the proposed HRA Budget for 2024/25. Comments on the proposed budget can be made as follows:-

Expenditure

8.3 The total expenditure proposed amounts to £26.190m. The main areas of expenditure are considered below.

Supervision and Management

8.4 The budget proposed for supervision and management costs is £6.081m. This provides for a 3% pay award and also incorporates estate caretaker and housing support resources previously funded from the general services budget.

Sheltered Housing

8.5 The Sheltered Housing Budget is increased to £0.064m for 2024/25.

Repairs and Maintenance

8.6 Proposed revenue expenditure for Repairs and Maintenance of £9.694m represents a £1.002m decrease on 2023/24, reflecting the reduction in electrical upgrades following the progress made with electrical circuit testing and that roof and fabric repairs will be funded within the capital programme in future. Capital expenditure for Planned Maintenance & Investment Programmes and Improvements of £18.854m is included in the Housing Investment Plan, summarised in **APPENDIX II**. These budgets make provision for typical levels of activity as well as the strategic investment priorities.

Garages

8.7 Charges in relation to garages provided by the HRA have previously been reviewed bi-annually. Given the current rate of inflation, it is intended that these charges are subject to an annual uplift of 7.7% in line with house rents and thereafter subject to annual review.

Grass Cutting

8.8 Grass cutting charges are subject to annual revision and it is proposed that these will be uprated at the same rate as rents, therefore by 7.7%.

New Build Housing Programme

8.9 The Scottish Government has identified affordable housing as a key national strategic priority and committed to fund the building of 110,000 affordable housing by 2032.

8.10 Following wide consultation with stakeholders, the Local Housing Strategy 2019-24 was agreed by Communities Committee on 2 April 2019 (paragraph 8 of the minute refers). The key objectives of increasing the supply of affordable housing and tackling homelessness are included in the Council's Corporate Plan 2023. The Housing Need and Demand Assessment 2023 (HNDA) suggests that 3,827 new affordable houses are required over a 20-year period to address existing and projected housing need in Moray.

8.11 Expenditure of £13.037m is budgeted for in relation to the new build programme for 2024/25, with £34.952m and £16.519m allocated for 2025/26 and 2026/27 respectively, representing the anticipated schedule of forthcoming developments.

8.12 On 15 November 2022, the Housing and Community Safety Committee approved the Council's Strategic Housing Investment Plan (SHIP) (paragraph 10 of the Minute refers). In accordance with Scottish Government guidance, the SHIP over-commits on available grant funding. The SHIP includes several projects assigned to the Council's own development programme, and several projects which are unassigned. The HRA Business Plan 2022 made provision for 50 Council house completions per year. Given there is some uncertainty with regards to the capacity of the local housing associations to develop, it can be assumed that the scale of the Council's house building programme will be a key factor in ensuring that the available resources are fully utilised in Moray. Developments which are in the pipeline are continuing to progress, with 245 units included in the Business Plan between 2023/24 and 2027/28.

Individual projects will, however, be subject to value for money assessments until fully committed, to ensure they remain affordable. The HNDA output will direct funding priorities in subsequent years and in line with the previous Business Plan finding that continuing with a development/acquisition programme of 50 properties per year actually reduces the debt affordability %, albeit with a higher debt per unit, it is envisaged this level of output remains realistic and prudent.

8.13 Open market acquisition of properties will be considered under the provisions of the SHIP in relation to strategic priorities including maintenance of flatted blocks for which the Council has responsibility and meeting the needs of specific applicants. Any such investment decisions will be predicated on a value for money assessment and consideration of impact on the HRA Business Plan assumptions. Provision for around 12 units in 24/25 and a further 12 in each of 25/26 and 26/27 has been made within the Business Plan and the SHIP.

Financing Costs

8.14 Financing costs are projected at £7.188m for 2023/24. This is an increase of £2.005m when compared to the previous year's budget, by consequence of the increased cost of borrowing. An objective of the forthcoming Business Pan review will be to undertake benchmarking with other local authorities in relation to HRA borrowing costs.

Capital from Current Revenue (CFCR)

8.15 CFCR enables the Council to utilise available revenue resources to help fund capital projects and reduce the requirement for prudential borrowing. The Housing Investment Plan sets out the repairs and maintenance priorities for 2024/25. These will be financed through the HRA revenue and capital budgets. For 2024/25, it is proposed to set CFCR at £2.641m to allow the Council to maintain an HRA balance of £2.250m at year end.

Downsizing Incentive Scheme

8.16 It is proposed to maintain the annual budget for the Downsizing Incentive Scheme at £72k for 2024/25.

Service Developments

8.17 Service developments of up to £200k have been included in the budget for 2024/25 to make provision for emergent priorities, including a refresh of the HRA Business Plan and continuation of the Tenant Assistance Fund which is being piloted in March 2024. Specific details will be reported to service committees in the course of the reporting year.

Income

8.18 Rental income is the primary source of income for the HRA. The HRA must balance (or the deficit must be funded from General Services). The level of income generated within the HRA continues to influence what the Council can fund with regards to its housing activities. Rent collection rates remain in the upper quartile compared with other local authority landlords.

9. SUMMARY OF IMPLICATIONS

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

The provision of new affordable housing, the maintenance of the Council's housing stock and dealing with homelessness are priorities identified within the Corporate Plan, the Council's Local Housing Strategy, the Strategic Housing Investment Plan (SHIP) and the Housing and Property Service Plan.

(b) Policy and Legal

Proposed approaches to reviewing the rent setting policy and temporary accommodation charging policy are set out within this report and will be subject to further detailed consultation and reporting to service committees in the course of the year. There are no legal implications arising from this report.

(c) Financial Implications

The 2022 Business Plan review provides for the legislative work programmes that the Council will be required to deliver in future years and sets a rental framework within which it can be sustainably delivered. It concluded that an increase of CPI + 1% would ensure that the Council's housing activities remain fundable and affordable. The Business Plan will be reviewed given the extent of investment activity and changing market conditions.

(d) Risk Implications

The 2022 Business Plan review included detailed risk assessment and sensitivity analysis, which demonstrated that the HRA remains within acceptable limits under the range of scenarios tested. Given the extent of economic uncertainty, this position will be reviewed in the course of 2024.

(e) Staffing implications

There are no direct staffing implications arising from this report.

(f) Property

None.

(g) Equalities/Socio Economic Impact

There are no equalities/socio economic impacts arising from this report. The uplift in temporary accommodation charges does not require an EIA to be undertaken, however the proposed comprehensive policy review will necessitate a full impact assessment once progressed.

(h) Climate Change and Biodiversity Impacts

Delivery of the Housing Investment Programme will make a significant contribution to meeting EESSH standards within the Council's stock, thereby reducing energy ratings and carbon emissions. Similarly, the Council's affordable housing supply programme is predicated on delivering low-carbon developments.

(i) Consultations

This report has been prepared in consultation with Finance staff. Consultation on this report has also been carried out with the Chief Financial Officer, the Head of Governance, Strategy and Performance, Democratic Services Manager and Senior Managers within the Housing and Property Service and any comments received are reflected in this report.

10. CONCLUSION

10.1 This report presents the HRA Budget proposals for 2024/25. It also includes a three-year financial projection to 2026/27. Following consultation, a rent increase of 7.7% is recommended for 2024/25, in line with the revised rent structure.

Author of Report:	Edward Thomas, Head of Housing and Property
Background Papers:	Held by author
Ref:	SPMAN-1285234812-1500

APPENDIX III

Service Description	**Annual Budget 2024-25**	**Annual Budget 2025-26**	**Annual Budget 2026-27**
Expenditure	**£,000**	**£,000**	**£,000**
Supervision & Management	6,081	6,276	6,464
Sheltered Housing	64	66	68
Repairs and Maintenance	9,694	9,059	9,331
Financing Costs	7,188	7,680	7,653
Bad & Doubtful Debts	250	263	276
CFCR	2,641	3,714	4,396
Downsizing Incentive Scheme	72	72	72
Service Developments	200	100	100
Total Gross Expenditure	26,190	27,230	28,360
Income	**£,000**	**£,000**	**£,000**
Non-dwelling rents	260	273	287
House rents	25,126	26,500	27,711
IORB	437	300	200
Other income	152	157	162
Total Income	25,975	27,230	28,360
Surplus / (Deficit)	(215)	0	0
Balance carried forward	2,465	2,250	2,250
Estimated Balance at end of Period	2,250	2,250	2,250

1. The Investment proposals for 2024/25 to 2026/27 can be summarised as shown below:-

Investment Heading	Programme	2024/25 £,000	2025/26 £,000	2026/27 £,000
Response Repairs	Response Repairs	2,610	2,688	2,769
	Heating Repairs	636	655	675
	Total Response	**£3,246**	**£3,343**	**£3,444**
Void Repairs	**Void House Repairs**	**£1,513**	**£1,559**	**£1,605**
Estate Works	Garage Upgrades	27	28	29
	Asbestos	372	383	395
	Estates/Forum	230	237	244
	Landscaping	90	92	95
	Total Estate Works	**£719**	**£740**	**£763**
Cyclical Maintenance	Gas Servicing	419	432	445
	Solid Fuel Servicing	5	5	5
	ASHP Servicing	65	67	69
	Smoke Alarm Servicing	16	16	17
	External decoration & fabric repairs	835	860	886
	General Servicing	60	62	64
	Fire Risk Assessments & associated works	155	160	164
	Total Cyclic Works	**£1,555**	**£1,602**	**£1,650**
Planned Maintenance & Investment Programmes	Cap – Roof Replacements	1,021	1,052	1,084
	Rainwater Goods - Gutter clearance/repairs	290	299	308
	Rainwater Goods - Roof Moss cleaning	232	239	246
	Cap - Insulation	1,641	1,691	1,741
	Plumbing Upgrades	60	62	64
	Electrical Upgrades	1,114	220	227
	Safety & Security	25	26	26
	Shower Installations	60	62	64
	Sheltered Housing	12	12	13
	Decoration Vouchers	120	124	127
	Cap - Bathroom Replacements	395	407	419
	Cap - Kitchen Replacements	1,153	1,187	1,223
	Cap - Central Heating	2,588	2,665	2,745
	Cap - EESSH	1,281	3,000	3,090
	Cap – Social Housing Net Zero Fund	5,631	0	0
	Cap - Doors	120	123	127
	Cap - Windows	2,417	2,490	2,565
	Cap - Major Works	694	0	0
	Total Planned	**£18,854**	**£13,659**	**£14,069**
Other Investment	Disabled Adaptations	548	565	581
	Enabling	50	51	53
	Total Other	**£598**	**£616**	**£634**
Proposed Investment		**£26,485**	**£21,519**	**£22,165**

2. Capital expenditure proposed for 2024/25 to 2026/27 can be summarised as:–

Investment	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
Roof Replacements	1,021	1,052	1,084
Insulation	1,641	1,691	1,741
Doors and Windows	2,537	2,614	2,692
Central Heating	2,588	2,665	2,745
EESSH	1,281	3,000	3,090
Kitchen Replacements	1,153	1,187	1,223
Bathroom Replacements	395	407	419
Social Housing Net Zero Fund – Insulation & Heating	5,631	0	0
Major Works	694	0	0
Council House New Build	13,037	34,952	16,519
Open Market acquisitions	2,000	2,000	2,000
Total Capital Investment	**31,978**	**49,568**	**31,513**

3. For the same period, capital funding is projected at:-

Projected income	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
CFCR	2,641	3,512	4,126
Prudential Borrowing	12,862	16,993	22,446
Scottish Government Grant	15,825	28,413	4,291
Council Tax Discount on 2nd homes	650	650	650
Total	**31,978**	**49,568**	**31,513**

APPENDIX III

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Estimated Balance at end of Period	2,250	2,250	2,250

REPORT TO: **MORAY COUNCIL ON 28 FEBRUARY 2024**

SUBJECT: **TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS**

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

1. REASON FOR REPORT

1.1 The purpose of this report is to ask Members to approve the Treasury Management Strategy and the Investment Strategy for 2024/25 and to approve the indicators which will be used to measure the Council's performance in capital investment decisions.

1.2 This report is submitted to Council in terms of Section III B (3) of the Council's Administrative Scheme relating to the implementation and monitoring of the Treasury Policy Statement dealing with the management of all money and capital market transactions in connection with cash funding resources of the Council.

2. RECOMMENDATION

2.1 It is recommended that Council approves:

(i) the Treasury Management Strategy Statement for 2024/25;

(ii) the Investment Strategy for 2024/25 in APPENDIX 1; and

(iii) the Prudential Indicators and Limits for 2024/25 in APPENDIX 3.

2.2 It is recommended that Council notes the indicative Prudential Indicators and limits for 2025/26 and 2026/27.

3. BACKGROUND

3.1 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector 2021 (the Code) and the Local Government Investment (Scotland) Regulations 2010. All treasury management activities are carried out in accordance with the Code and regulations.

3.2 The primary requirements of the Code are as follows:

- An approved Treasury Management Policy, which sets out the policies and objectives of the Council's treasury management activities.

- An annual treasury management strategy report to Council for the year ahead and an annual review report to Council of the previous year.

3.3 The Local Government (Scotland) Act 2003 requires the Council to adopt the CIPFA Prudential Code for Capital Finance in Local Authorities and to produce the prudential indicators set out in the Prudential Code. These indicators are designed to support and record affordable and sustainable capital investment and treasury management.

4. TREASURY MANAGEMENT STRATEGY 2024/25

Current Treasury Position

4.1 The Council's borrowing and investments at 8 February 2024 are set out in the table below:

		Actual	Rate
		£000	%
Fixed Rate Debt	PWLB	**121,488**	**5.10**
	LOBO	**10,100**	**3.95**
	Market	**23,300**	**5.00**
Variable Rate Debt	PWLB	**-**	**-**
	LOBO	**-**	**-**
Temporary Borrowing – Local Authorities		**80,000**	**5.11**
Total External Borrowing		**225,058**	**5.04**
Other Liabilities		**50,008**	**n/a**
Total Gross External Debt		**275,066**	**n/a**
Investments			
Short Term Investments		**9,830**	**5.21**
Net Debt		**265,236**	**n/a**

PWLB is the Public Works Loan Board. LOBO is Lender's Option Borrower's Option where the lender has the option to propose an increase to interest rates at set dates and the borrower (the Council) has the option to either accept the new rate or to repay the loan. Temporary borrowing is borrowing for periods of less than twelve months. Other liabilities are those relating to the financing of capital expenditure, finance leases and Public Private Partnership (PPP) arrangements.

Interest Rates Forecast

4.2 The Council has appointed Arlingclose as treasury management advisers and receives advice on investment, debt and capital finance issues. The Council recognises that responsibility for treasury management decisions rests with the Council and cannot be delegated to the adviser.

4.3 The Bank of England (BoE) held the Bank Rate at 5.25% on 1 February 2024 with the next meeting due on 21 March 2024. The authority's treasury adviser Arlingclose is forecasting that the chance of a cut in Bank Rate remains slim, with the second half of 2024 appearing more likely timing for the start of a relaxing cycle.

4.4 Arlingclose note that gilt yields (the interest rates paid on UK Government Bonds) have a high level of volatility. From about October 2023 there was a very sharp decline in gilt yields, being driven by fears of global growth and recessions (particularly in the US) and a market understanding that we had reached peak rates. A rebound in January 2024 largely due to stronger global data, Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary loosening in the UK, Eurozone and US.

4.5 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **APPENDIX 4.**

Borrowing Strategy 2023/24

4.6 The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.7 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.8 By adopting the above approach, the Council can reduce net borrowing costs and reduce overall treasury risk. The benefits of either using internal resources or borrowing short-term will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years

when long-term borrowing rates are forecast to rise modestly. The Council's advisers will assist with this breakeven analysis which may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.9 The Council has previously raised the majority of its long-term borrowing from the PWLB but could consider long-term loans from other sources including banks and local authorities. The Council may also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code, although previous investigation of the implications of this resulted in rejection of this option. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council has never adopted this approach and will continue to avoid this activity in order to retain access to PWLB loans.

4.10 The Council will continue to borrow short term loans, normally one to twelve months, to cover cash flow shortages.

4.11 The approved sources of long-term and short-term borrowing are:-

- HM Treasury's PWLB lending facility (formerly the Public Loans Works Board) and any successor body
- UK Local Authorities
- Any Bank or Building Society authorised to operate in the UK.
- UK public and private sector pension funds
- Capital market bond investors
- UK Municipal Bonds Agency PLC and other special purpose companies created to enable joint local authority bond issues

The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Associations as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to Local Authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that, for whatever reason, the agency is unable to; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the UK Municipal Bonds Agency will therefore be subject to a separate report to Full Council.

4.12 At 1 April 2023 the Council held £10.1 million of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the opportunity to repay the remaining LOBO loan at no additional cost if the opportunity arises.

4.13 The revised Prudential Code and Treasury Management Code of Practice published December 2021 states that it is not prudent for local authorities to make investment or spending decisions that increases the capital financing requirement and so leads to new borrowing unless directly and primarily related to the functions of the local authority. In short, the Council is not permitted to borrow to invest primarily for financial return.

4.14 The revised code reminds Local Authorities that the prime objective of their treasury management investment activities is the security of funds, and they should avoid exposing public funds to unnecessary or unquantified risk. It is not prudent to make any investment or spending decision where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose of the Local Authority.

Debt Rescheduling

4.15 The PWLB allows Councils to repay loans before maturity, at a cost. Other lenders may also be prepared to negotiate premature redemption rates. This will be closely monitored with regards to the LOBO loan (£10.1m) and Market Loan (£23.3m). The Council will take the option to repay these loans at no additional cost if such an opportunity arises.

4.16 Changes in the rules regarding the premature repayment of PWLB loans have adversely affected the scope to undertake meaningful debt restructuring in recent years and there is no indication that this will change significantly during 2024/25.

Financial Derivatives

4.17 In the absence of any legal power to do so, the Council will not use standalone financial derivatives such as swaps, forwards, futures and options. Derivatives embedded into loans and investments may be used and the risks they present will be managed in accordance with the overall treasury risk management strategy.

5. INVESTMENT STRATEGY 2024/25

5.1 The Local Government Investment (Scotland) Regulations 2010 require the Council to approve an annual Investment Strategy. This has been included as **APPENDIX 1** to this report.

5.2 The primary principles governing the Council's investment criteria is the security of capital and liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested. Under the current economic climate of inflation above the UK Treasury target, despite rising interest rates this will be challenging in the short to mid-term.

5.3 The Council may invest its surplus funds with any of the Approved Counterparties listed in **APPENDIX 2**, subject to the cash and time limits shown.

6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

6.1 The key objectives of the Prudential Code are to ensure that capital investment plans of the Council are affordable, prudent and sustainable; risks are proportionate, and decisions are taken in accordance with good professional practice. To demonstrate these objectives the Code sets ten prudential and treasury indicators designed to support and record capital investment and treasury decision making. These are detailed in **APPENDIX 3**.

6.2 It is a statutory requirement under Section 93 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. In particular, a local authority must calculate its budget requirement for each financial year to include the revenue costs incurred from capital financing decisions.

Affordability

6.3 The fundamental objective of affordability is to ensure that capital plans remain within sustainable limits.

6.4 Setting affordable limits for borrowing within a prudential framework is a specific requirement and helps ensure that the further objectives of sustainability and prudence are addressed. The Council has adopted a Performance Indicator (PI) of the percentage of revenue budget planned to be spent on servicing debt as an additional method of ensuring affordability. This was reported on as part of the indicative ten year capital plan reported to Council on 24 January 2024 and shows that the ten year plan becomes unaffordable during the second five years of the currently drafted plan.

6.5 Despite the current upward pressure on interest rates, the Council does not envisage difficulties for the immediate future (ie next two or three years) after taking into account current commitments and recently reviewed plans. The Treasury Management Team, in partnership with the Council's treasury advisors Arlingclose, will continue to monitor closely the situation around interest rates and take any necessary action to avoid risk to the Council's finances.

Sustainability

6.6 The sustainability of the Council's finances underpins the overall financial framework and is supported by the Prudential Code. Sustainability of finances relates to the ability of the Council to sustain its current spending, tax and other policies in the long run without threatening Council solvency or defaulting on its liabilities or promised expenditure. Sustainability is gauged by the wider financial planning process and there are no prudential indicators specifically related to sustainability other than the affordability indicators.

Prudence

6.7 The prudent level of borrowing is linked to ensuring that debt will only be for a capital purpose. It is also prudent that treasury management activities are carried out in accordance with good professional practice. Within the CIPFA Prudential Code, local authorities are required to adopt the CIPFA Treasury Management Code of Practice.

6.8 The Local Government in Scotland Act 2003 also requires the Council to determine and continuously review how much it can afford to allocate to capital expenditure. This is known as the "Affordable Capital Expenditure Limit".

6.9 The Indicators and Limits for 2024/25 are based on the General Services Capital Plan approved by Council on 24 January 2024 and Housing Revenue Account Investment Plan presented in separate reports for consideration at this meeting.

6.10 Prudential Indicators are for 2024/25 only as the capital plan for General Services was approved for one year only, namely 2024/25. However, indicative figures for 2025/26 and 2026/27 are included based on the indicative 10 year capital plan reported to Council on 24 January 2024.

6.11 Actual outturn figures for 2022/23 have previously been reported to Moray Council on 27 September 2023 (paragraph 10 of the Minute refers) and these figures have also been included in the report for comparison purposes.

6.12 This report also updates the previously approved indicators for 2023/24 based on the latest estimated outturn for 2023/24 reported to Council on 12 December 2023 and shows that the Council remains within previously approved limits for borrowing.

6.13 Implementation of the new International Financial Reporting Standard (IFRS) 16 Leases in 2024/25 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities on the balance sheet for all leases with a term of more than 12 months. This will have an effect on the Council's Capital Financing Requirement going forward but, until full recognition has been established, the impact has not been estimated in the prudential indicators included in Appendix 3. The 2023/24 annual accounts will have reference to the new standard in the note to the accounts "Accounting Standards That Have Been Issued but Have Not Yet Been Adopted" with full disclosure the following year.

7. SUMMARY OF IMPLICATIONS

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

None specifically arising from this report.

(b) Policy and Legal

The Local Government in Scotland Act 2003 provides the powers to borrow and invest as well as providing controls and limits on these activities.

The Council has adopted the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice and Guidance Notes ("the CIPFA Code") which was revised in 2021. The Council also complies with the Local Government Investments (Scotland) Regulations 2010 ("the Regulations").

All Treasury Management activities are carried out in accordance with the CIPFA Code and the Regulations.

(c) Financial implications

All financial considerations are contained within the body of the report and the attached **APPENDICES 1 - 4**.

The net cost of Capital Investment and Treasury Management activities has a significant effect on the Council's overall finances.

When considering the level of future capital investment programmes, the Council should be aware of the impacts of proposed capital spend on the Revenue Budget.

(d) Risk Implications

The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's treasury advisers, will proactively manage its investments and debt over the year.

Capital expenditure is closely monitored and Budget Managers are aware of their responsibilities to manage budget allocations.

(e) Staffing Implications
None specifically arising from this report.

(f) Property
None specifically arising from this report.

(g) Equalities
None specifically arising from this report.

(h) Climate Change and Biodiversity Impacts
None specifically arising from this report.

(i) Consultations
This report has been produced in consultation with Arlingclose.

8. CONCLUSION

8.1 The adoption of the Treasury Management Strategy Statement will ensure that the Council continues to adopt best practice in its treasury activities.

8.2 The Investment Strategy will ensure that the Council will achieve the optimum return on its investments whilst maintaining a high level of liquidity to allow flexibility and above all ensure that the Council's investments are secure.

8.3 Establishing and subsequent monitoring of Prudential and Treasury Indicators will ensure that the Council has capital investment plans which are affordable, prudent and sustainable.

8.4 Prudential Indicators and Limits are proposed for 2024/25 only, as the proposed Capital Plan is for this year only. Indicative figures for 2025/26 and 2026/27 are identified.

Authors of Report: Susan Souter, Senior Accountant
Background Papers:
Ref: SPMAN-1293228629-1050

THE ANNUAL INVESTMENT STRATEGY 2024/25

1. Background

1.1 The Council will adhere to the Local Government Investment (Scotland) Regulations 2010 (the Regulations), the CIPFA Prudential Code and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Code") which was revised in 2021.

1.2 Both the Regulations and the CIPFA Code require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving very low interest rates on investments. Where balances are invested for more than one year, the Council will endeavour to achieve a total return that is at least equal to the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

1.3 The Annual Investment Strategy covers:

- Creditworthiness Policy
- Investment Strategy
- Permitted Investments
- Non Treasury Investments

2. Creditworthiness Policy

2.1 The Council's creditworthiness policy has been formulated after consultation with Arlingclose, the Council's treasury advisers.

2.2 In addition to credit ratings provided by the three main credit rating agencies, Fitch, Moodys and Standard & Poor, the following tools are used to assess credit risk:

- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Corporate developments, news articles, market sentiment and momentum

2.3 The Chief Financial Officer maintains a counterparty list in compliance with the minimum criteria detailed in 2.4 which is submitted to the Council for approval as necessary. All credit ratings are monitored on an ongoing basis and the counterparty list is amended to reflect any changes. The current Counterparty List is shown as **APPENDIX 2**.

2.4 The current minimum criteria was approved by Full Council on 27 February 2019 (paragraph 5 of the Minute refers) and it is not proposed to alter these.

The Council's minimum criteria are:

- Banks – the Council will use banks which have at least the following Fitch or equivalent ratings.
    - Long Term: BBB+
- Building Societies – the Council will include Societies which meet the criteria for Banks outlined above.
- Money Market Funds – Long Term: AAAmmf (Fitch) or equivalent.

2.5 The Council banks with Bank of Scotland and at the current time it meets the minimum credit criteria. However, if the credit rating falls below the Council's minimum criteria, Bank of Scotland will continue to be used for short-term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

3. Investment Strategy

3.1 The Local Government Investments (Scotland) Regulations 2010 states that local authorities are required to adopt a strategy that identifies the different types of treasury risk for the type of investments utilised. A local authority may invest money for any purpose relevant to its functions under any enactment, or for the purposes of prudent management of its financial affairs. Such investments or types of investments are defined as permitted investments. The risks that these investments are exposed to are credit or security risk (of default); liquidity risk (risk of committing funds to longer term investments); and market risk (effect of market prices on investment value).

3.2 The primary principle governing the Council's investment criteria is the security of capital and liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

3.3 The Council's in-house managed funds are mainly derived through cash-flow and the balance on the General Reserve. Investments will accordingly be made with reference to the Council's cash flow requirements and the outlook for short-term interest rates.

3.4 Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved. Therefore a maximum deposit of £5 million can be placed with any one institution at any one time, with the exception of the Council's Bankers when the limit is £10 million.

3.5 Given the Council's requirement for sufficient liquidity for cash flow purposes, the investment strategy continues to focus on the utilisation of an unsecured call account with Council's Banker and money market funds as they offer the best return for investments with instant access.

4. Permitted Investments

4.1 The Council will undertake the most appropriate form of investments in keeping with investment objectives, income and risk management requirements and prudential indicators. The Council may invest its surplus funds with any of the counterparty types in the table detailed in paragraph 4.4 below, subject to the cash and time limits shown.

4.2 The permitted investments identified for the Council's use are as follows:

- **UK Debt Management Office (DMO).** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the UK Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. The longest term deposit that can be made with the DMO is 6 months.

- **Bank (Unsecured).** These are account deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should a bank be failing or likely to fail. Diversifying investments is crucial to managing bail-in risk in addition to determining proportionate counterparty maturity limits. Should the Council's current bank, Bank of Scotland, be rated less than BBB+, investments with them will be restricted to overnight deposits.

- **Banks (Secured).** These are covered bonds, reverse purchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in.

- **Money Market Funds (MMFs).** MMFs are pooled funds that invest in short-term debt instruments. They provide the benefits of a pooled investment, as investors can participate in a more widely diversified portfolio than they could do individually. Due to the high level of expertise of the fund managers and the very large amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification, very low or no volatility and competitive rates of return.

- **Securities Issued or Guaranteed by Governments**

  a) **Treasury Bills.** These are short-term bills (up to 12 months) issued by the Government and therefore are backed by the sovereign rating of the UK. An advantage compared to a time deposit in the DMO is that they can be sold if there is a need to access cash at any point in time. However there is a spread between purchase and sale prices so early sales may incur a net cost which would result in a fall in the nominal value of the instrument.

  b) **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK.

- **Lending to other Local Authorities.** Lending to other local authorities will normally be in the form of fixed term deposits for periods up to one year.

4.3 All investments in the table at 4.4 are subject to the following risks:-

1. **Credit and Counter-Party Risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the Council, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have a very high level of creditworthiness. Credit ratings are obtained and monitored by the Council's treasury advisers, who notify changes in ratings as they occur.

2. **Liquidity Risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this strategy liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However while some forms of investment, e.g. gilts or corporate bonds, can usually be sold immediately if the need arises, there are two caveats: (a) cash may not be available until a settlement date up to three days after the sale and (b) there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in the table below at section 4.4 headed as 'market risk' shows each investment instrument as being instant access; sale T+1 = transaction date plus one business day before you get the cash, or term i.e. money is locked in until an agreed maturity date.

3. **Market Risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

4. **Interest Rate Risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately. The Council has set

limits for its fixed and variable rate exposure in its previously agreed Treasury Indicators.

5. **Legal and Regulatory Risk:** this is the risk that the Council or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

6. **Bail-In Risk:** this is the risk, arising from the EU Bank Recovery and Resolution Directive which has been implemented in the UK, that a bank's creditors and depositors are forced to bear some of the burden of rescuing a failing bank.

4.4 The following table provides details of the proposed investment limits and maturity periods for Permitted Investments:

	Minimum Credit Criteria (Fitch or Equivalent)	**Liquidity risk**	**Market risk**	**Bail-In Risk**	**Maximum Value of investments**	**Maximum maturity period**
Debt Management Office	n/a	term	no	n/a	No Limit	6 months
Term Deposits: Local Authorities	n/a	term	no	n/a	£5m	364 Days
Banks (Unsecured)	Long-Term: BBB+	Instant*****	no	yes	£5m (£10m Council's own Bank)	n/a
Banks (Secured)	Long-Term: BBB+	term	no	no	£5m (£10m Council's own Bank)	3 months
Money Market Funds	AAAmmf	instant	no	n/a	0.5% of Money Market Fund size Government Money Market Funds – 2% of Fund size	n/a
Treasury Bills	UK Sovereign Rating	Sale T+1	No (If held to maturity)	n/a	No Limit	12 months
UK Government Gilts	UK Sovereign Rating	Sale T+1	No (If held to maturity)	n/a	No Limit	12 months

*****The only investment of this type used is a Call Account with the Council's own Bank.

4.5 Controls on Treasury Risks

1. **Credit and Counter-Party Risk:** the Council has set minimum credit criteria to determine which counterparties are of high creditworthiness to enable investments to be made safely.

2. **Liquidity Risk:** the Council has cash flow forecasting models to enable it to determine how long investments can be made for and how much can be invested.

3. **Market Risk:** the Council does not directly purchase and/or account for investment instruments which are subject to market risk in terms of fluctuation in their value. If this position changes, instruments exposed to market risk will initially be purchased and held with the intention to hold them until maturity, thus mitigating market risk.

4. **Interest Rate Risk**: the Council manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with minimising risk or alternatively, seeks to minimise expenditure on interest costs on borrowing.

5. **Legal and Regulatory Risk:** the Council will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

6. **Bail-In Risk:** The Council will diversify investments to manage this risk. Any investments subject to the risk of bail-in are restricted to overnight deposits with the Council's own Bank (Call Account).

4.6 Unlimited Investments

4.6.1 The Regulations state that the Council can deem an investment as being 'unlimited' in terms of the maximum amount of the total portfolio that can be put into that type of investment but an explanation must be given for using that category.

4.6.2 The Council has only given the UK Government (Debt Management Office, Treasury Bills and Gilts) an unlimited category. This is considered to be the lowest risk form of investment available to local authorities.

5. Non Treasury Investments

5.1 Investments defined in the regulations include the acquisition of properties, share or loan capital. These types of investments may have originally been made for service or policy reasons or for treasury management purposes. Should the Council make an investment which is not listed as a permitted investment, that investment will not be made in accordance with the Consent of Ministers and as such will be *ultra vires.* The exception to this is where the Council makes a financial transaction that relies on separate legislative powers such as loans to third parties.

5.2 General powers to borrow and lend money are conferred by s165 of the Local Government etc (Scotland) Act 1994 and ensuing regulations. Specific regulations for loans to third parties by local authorities are contained in the Housing (Scotland) Act 1987, the Housing (Scotland) Act 2006 and the general power to advance well-being contained in the Local Government in Scotland Act 2003 at section 20. The inclusion of loans to third parties as part of the investments of the Council is to identify the value of local authority monies utilised in this way, monies which would otherwise be available for general investment and give rise to investment income.

5.3 The following table provides a summary of the Councils Non-Treasury Investments at 31 March 2023 and the maximum value of investments that the Council will hold.

	Actual Value at 31 March 2023 £m	**Max Value of Investments £m**
Investment Property * - Council	£0.395m	£10m
Share Holdings - Council	Note **	£0.1m
Loans to 3rd Parties Market Rate - Council	£0.403m	£2.0m
Loans to 3rd parties – Below Market Rate - Council	£0.019m	£0.5m
Investment Property * - Common Good Funds	£2.571m	£12m
Share Holdings - Common Good Funds	Nil	Nil
Loans to 3rd Parties Market Rate – Common Good Funds	Nil	£0.5m
Loans to 3rd parties – Below Market Rate – Common Good Funds	Nil	Nil
Investment Property * - Trust Funds	£0.100m	£1.0m
Share/ Unit Trust Holdings – Trust Funds	£2.998m	£3.5m

Notes

* Investment Properties have been categorised using IFRS guidelines and is mainly land which the Council will use for development in the future.

** Although the Council has 20.44% of total share capital in The Grampian Venture Capital Fund Limited no value has been attached this share holding in its current Balance Sheet due to the fact that the Council has no exposure to commercial risk and the Council has not passed on control of any of its assets.

6. End of Year Investment Report

6.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Management Report.

THE MORAY COUNCIL
APPROVED COUNTERPARTIES LIST

UK Banks		Limit (£m)	Time Limit	Long Term Rating See Note
Bank of Scotland	**(Lloyds)**	10	Call	A+/A1/A+
Barclays Bank		5	35 days	A+/A1/A+
HSBC		5	35 days	AA-/A1/A+
Lloyds Bank		5	35 days	A+/A1/A+
National Westminster Bank	**(RBS)**	5	35 days	A+/A1/A+
Royal Bank of Scotland		5	35 days	A+/A1/A+
Santander (UK)		5	35 days	A+/A1/A
Standard Chartered Bank		5	35 days	A+/A1/A+

Item 8.

UK Building Societies			
Nationwide	5	35 days	A+/A1/A+

Other Institutions			
Debt Management Office	Unlimited	6 Months	AA-u/Aa3/AAu
UK Local Authorities	5	2 years	

Money Market Funds			
Standard Life Sterling Liquidity Fund	5	Call	AAAmmf/Aaa-mf/ AAAm
Federated Sterling Prime Fund	5	Call	AAAmmf/Aaa-mf/ AAAm
Blackrock Institutional Sterling Liquidity Fund	5	Call	AAAmmf/Aaa-mf/ AAAm
Insight Sterling Liquidity Fund	5	Call	AAAmmf/Aaa-mf/ AAAm
Deutsche Bank Managed Sterling Fund	5	Call	AAAmmf/Aaa-mf/ AAAm
CCLA Public Sector Deposit Fund (UK)	5	Call	AAAmmf/Aaa-mf/-

Notes

1.The long term ratings for each institution above are in the format Fitch/ Moodys/ Standard & Poor.

The minimum ratings are as follows: -
Fitch: BBB+
Moodys: Baa1
Standard & Poor: BBB+

Prudential and Treasury Indicators

Capital Expenditure Indicators

1. Capital Expenditure

The Council is required to establish and keep under review capital investment plans which are affordable. It should make reasonable estimates of total capital expenditure that it plans to incur during the forthcoming year and the following two years.

This indicator outlines capital spending plans for 2024/25 based on the proposed capital plan, with indicative figures for 2025/26 and 2026/27 based on the indicative 10 year capital plan.

For comparison purposes, the actual spend for 2022/23 is presented together with estimates for 2023/24 based on the latest figures at 31 December 2023.

	2022/23 Actual £000	**2023/24 Estimate £000**	**2024/25 Budget £000**	**2025/26 Budget £000**	**2026/27 Budget £000**
Capital Expenditure					
General Services	28,356	29,901	49,662	63,521	44,120
HRA *	17,657	6,298	31,979	49,568	31,513
Total Capital Expenditure	**46,013**	**36,199**	**81,941**	**113,089**	**75,633**
Financed by:					
Capital Receipts	-	1,306	890	1,186	183
Capital Grants	23,316	11,119	22,877	35,913	11,791
Revenue	2,085	2,317	3,292	4,162	4,776
Total Funding	25,401	14,742	27,059	41,261	16,750
Net financing need for the year	**20,612**	**21,457**	**54,582**	**71,828**	**58,883**

In General Services, the 2023/24 estimated capital expenditure includes a number of major projects. The most significant items are; £5.3m for the Council's share of the cost of the construction of the NESS Energy for Waste (EfW) facility in Aberdeen, £4.5m on Road Improvement projects and £5.3m on the Learning Estate. In 2024/25 the Council has budgeted to spend £49.662m: including £20.9m on the Learning Estate, £3.54m on Road Improvements and £3.53m on vehicle and plant replacement. The other most significant project is the Moray Growth Deal and there is currently £15.5m in the capital plan for funded projects under this heading.

The increase on the HRA from 2023/24 relates principally to the phasing of the new build housing programme, along with an increase in investment in existing Housing Stock. An improvement plan is also being developed to accelerate delivery of energy efficiency programmes in 2024/25.

Capital grant and other contributions show an increase of £4.7m from 2023/24 estimated amounts to the 2024/25 budget, explained mainly by an increase in grants to fund HRA new builds and government grant funding for Moray Growth Deal. Capital expenditure includes two projects to be funded from the Learning Eastate Improvement Programme (LEIP). LEIP funding is revenue and consequently is not reflected in the funding figures above.

2. Capital Financing Requirement

The capital financing requirement measures the Council's underlying need to borrow for capital investment. The capital financing requirement rises over the period as a large proportion of the Council's capital expenditure is financed by additional borrowing thus increasing the Council's total outstanding debt.

The Council pays off an element of the accumulated debt each year through a revenue charge (the scheduled debt amortisation).

	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Capital Financing Requirement (CFR)					
General Services	292,114	301,140	331,761	374,186	396,874
HRA	76,366	76,283	86,961	101,213	120,419
Total CFR	**368,480**	**377,423**	**418,722**	**475,399**	**517,293**
Movement in CFR	**16,500**	**8,943**	**41,299**	**56,677**	**41,894**
Net financing Need (Indicator 1)	20,610	21,457	54,582	71,828	58,883
Scheduled debt amortisation	(4,110)	(12,514)	(13,283)	(15,151)	(16,989)
Movement in CFR	**16,500**	**8,943**	**41,299**	**56,677**	**41,894**

Affordability Indicators

The following three indicators measure whether the Council's level of borrowing is affordable and financially prudent.

3. Ratio of Financing Costs to Net Revenue Stream

This indicator provides a measure of the percentage of the budget that is being set aside to pay debt financing costs. For General Services this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers. For Housing, the indicator is the ratio of financing costs to gross house rental income.

Service	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Services	8.62%	8.84%	10.73%	11.05%	10.94%
HRA	21.51%	24.36%	28.68%	29.04%	27.67%

The percentages in General Services from 2022/23 to 2026/27 reflect the ongoing general requirement to increase borrowing to fund capital expenditure in the capital plan, particularly in the Learning Estate and the Moray Growth Deal. The Growth Deal expenditure is front-loaded against the anticipated grant profile and the Council has made provision for this.

The increase in percentages in the HRA from 2022/23 to 2026/27 reflects the ongoing requirement to increase borrowing due to the ongoing programme of new build housing and an increase in investment in existing housing stock. This is reflected in the HRA business plan.

4. Estimates of Incremental Impact of New Capital Investment Decisions on Council Tax and House Rents

This indicator demonstrates the incremental impact of planned capital expenditure and associated borrowing on council tax and rent levels, were these to rise to cover the cost of capital.

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Council Tax - Band D	£54.45	£39.49	£140.89	£38.00	£6.93
Average Weekly Housing Rents	£0.79	£2.64	£5.23	£1.47	(£0.08)

An increase in the calculated amount on Council Tax is indicative of the Council's requirement to borrow in order to fund the General Services Capital Plan. The 2024/25 estimate reflects the inclusion of high cost projects of Investment in the School Estate and the Moray Growth Deal and also the increase in interest rates.

In the HRA, the increase in incremental impact on housing rents from 2023/24 onwards demonstrates that the capital investment plans, including for new affordable housing, require an incremental increase on average rents to fund the cost of additional borrowing, hence the incremental impact of additional borrowing decreases over time.

Prudence Indicators

5. Gross Debt and the Capital Financing Requirement

This indicator records the extent that gross debt is less than the capital financing requirement (see Indicator 2 above). This indicator shows prudence by demonstrating that over the medium term external borrowing is used only for a capital purpose. The values are measured at the end of each financial year. Debt is the sum of external borrowing and other liabilities relating to the financing of assets (e.g. PPP and other finance leases).

Reported debt must include all liabilities relating to the financing of assets.

	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Borrowing	241,020	251,285	294,094	352,310	395,785
Other Liabilities	50,009	48,687	47,177	45,638	44,057
Gross Debt	291,029	299,972	341,271	397,948	439,842
CFR	368,480	377,423	418,722	475,399	517,293
Under Limit By	77,451	77,451	77,451	77,451	77,451

The above figures confirm that the Council's borrowing will be under the Capital Financing Requirement due to the Council's policy in the economic climate of low interest rates of using internal balances and short term temporary loans.

External Debt Indicators

The prudential indicator for actual external debt is considered at a single point in time, which is at the end of each financial year. Therefore, it is only comparable to the authorised limit and operational boundary at that specific time. The actual external debt reported in the annual accounts for the previous year is required to be shown in the tables below for comparison purposes only.

6. The Authorised Limit For External Debt

The authorised limit for external debt is required by the Prudential Code to separately identify external borrowing and other liabilities such as PPP and finance lease obligations. This limit provides a maximum figure to which the Council could borrow at any given point during each financial year. The authorised limit should contain sufficient headroom to provide for any anticipated payments as well as being based on the Council's capital investment plan.

	2022/23 Actual Maximum £000	2023/24 Estimate Maximum £000	2024/25 Estimate Maximum £000	2025/26 Estimate Maximum £000	2026/27 Estimate Maximum £000
Borrowing	241,020	279,635	362,029	427,319	482,014
Other Liabilities	50,009	50,687	49,177	47,638	46,057
Total External Debt	291,029	330,322	411,206	474,957	528,071

The authorised limits shown above are based on the proposed capital investment plan for 2023/24 to 2026/27 and anticipated Other Liabilities and take account of Treasury Management policy and practice. The figures allow sufficient headroom for unanticipated cash movements. Total debt must include all liabilities relating to the financing of assets.

7. Operational Boundary for External Debt

This indicator is a management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point during each year.

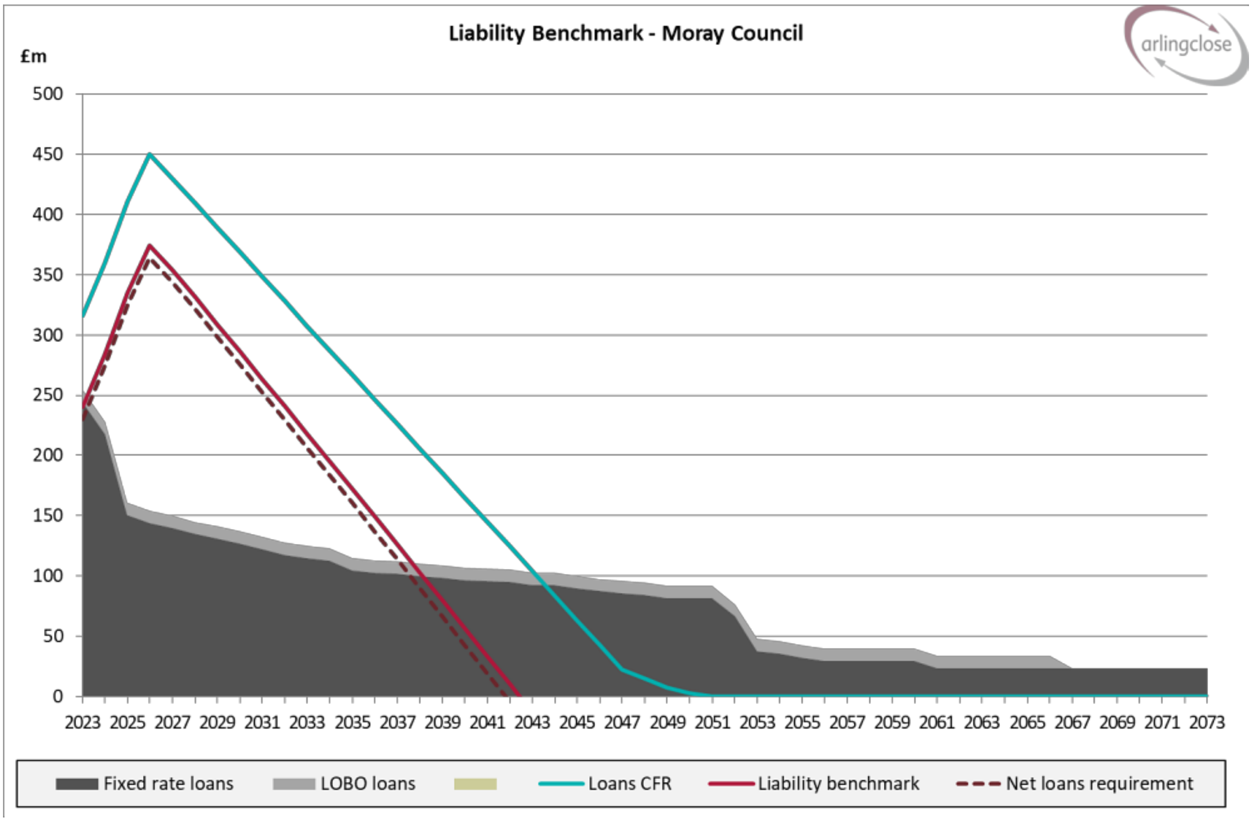
Operational Boundary	2022/23 Actual Maximum £000	2023/24 Estimate Maximum £000	2024/25 Estimate Maximum £000	2025/26 Estimate Maximum £000	2026/27 Estimate Maximum £000
Borrowing	241,020	274,635	347,029	412,319	467,014
Other Liabilities	50,008	49,687	48,177	46,638	45,057
Total External Debt	291,028	324,322	395,206	458,957	512,071

8. Liability Benchmark

The liability benchmark was introduced as a new treasury management prudential indicator in the 2021 edition of the CIPFA Treasury Management Code. Unlike other indicators, the liability benchmark is to be shown graphically and consists of three lines – the loans capital financing requirement, the net loans requirement and the liability benchmark itself, with also an area for actual borrowing:

- The Loans Capital Financing Requirement (LCFR) is the total Capital Financing Requirement (CFR) less the amounts that are met by other long-term liabilities, such as lease liabilities. The Council does not need to borrow for these amounts as the liability is effectively providing the cash to fund that part of the CFR.
- The Net Loans Requirement (NLR) is the amount of borrowing needed to keep treasury investments at zero. It is almost lower than the LCFR due to the balance sheet resources that create cash.

The LCFR can be described as the maximum permitted level of borrowing. The NLR is the minimum possible if borrowing, at which investments would be zero. This would expose the authority to the liquidity risk of being unable to make payments when due. The liability benchmark is the point between the two, where an appropriate balance of risks can be struck between these two extremes.



8. Compliance with CIPFA Code of Practice for Treasury Management in the Public Services

This is an adoption statement aimed at ensuring that treasury management is led by a clear and integrated forward treasury management strategy and recognition of the council's existing borrowing and investments portfolio.

There are four treasury prudential indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be restrictive they will impair the opportunities the Council may have to reduce financing costs.

8.1 Fixed and Variable Rate Limits

Upper limits on variable rate exposure – this indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper limits on fixed interest rate exposure – similar to the previous indicator, this sets a maximum limit on fixed interest rates.

	2022/23 Actual	2023/24 Estimate	2024/25	2025/26 & 2026/27
Interest Rate Exposures	**Upper Limit**	**Upper Limit**	**Upper Limit**	**Upper Limit**
Limits on Fixed Interest Rates based on Net Debt	100%	100%	100%	100%
Limits on Variable Interest Rates based on Net Debt	0%	35%	35%	35%

8.2 Maturity Structure of Fixed Interest Rate Borrowing

Maturity structure of borrowing – these gross limits, both lower and upper, are set to reduce the Council's exposure to large fixed rate sums falling due to be refinanced within the same financial year.

	2022/23 Actual	2023/24		2024/25		2025/26 & 2026/27	
		Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
< 12 months	36.44%	0%	37%	0%	40%	0%	37%
12 – 24 months	2.97%	0%	20%	0%	20%	0%	20%
2 – 5 years	10.77%	0%	25%	0%	25%	0%	25%
5 – 10 years	8.40%	0%	50%	0%	50%	0%	50%
>10 years	41.43%	0%	85%	0%	85%	0%	85%

8.3 Maximum Principal Sums Invested Greater than 364 days

Following changes arising from the Investment Regulations applicable from 1 April 2010, the Council can invest for periods longer than 364 days .The Council does not currently take advantage of this change and therefore has set a limit of Nil for investing over 364 days.

	2022/23 Actual	2023/24	2024/25	2025/26 & 2026/27
Principal Sums Invested > 364 days	£0M	£0M	£0M	£0M

INTEREST RATE FORECAST

	Current %	Mar 24 %	Jun 24 %	Sep 24 %	Dec 24 %	Mar 25 %	Jun 25 %	Sep 25 %	Dec 25 %	Mar 26 %	Jun 26 %	Sep 26 %	Dec 26 %
Bank Rate	**5.25**	**5.25**	**5.25**	**5.00**	**4.75**	**4.25**	**3.75**	**3.25**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**
3-mth Money Market	**5.40**	**5.40**	**5.30**	**5.15**	**4.80**	**4.30**	**4.10**	**3.80**	**3.50**	**3.25**	**3.15**	**3.10**	**3.10**
5-yr Gilt Yield	**3.96**	**3.75**	**3.70**	**3.65**	**3.60**	**3.50**	**3.40**	**3.30**	**3.30**	**3.30**	**3.30**	**3.35**	**3.40**
10-yr Gilt Yield	**3.97**	**3.80**	**3.80**	**3.80**	**3.75**	**3.70**	**3.65**	**3.65**	**3.65**	**3.65**	**3.65**	**3.70**	**3.75**
20-yr Gilt Yield	**4.50**	**4.40**	**4.30**	**4.25**	**4.25**	**4.20**	**4.20**	**4.20**	**4.20**	**4.20**	**4.20**	**4.25**	**4.25**
50-yr Gilt Yield	**4.19**	**3.90**	**3.90**	**3.90**	**3.90**	**3.90**	**3.90**	**3.90**	**3.90**	**3.95**	**3.95**	**3.95**	**3.95**

The forecast is based on the following underlying assumptions:

- The Bank of England’s Monetary Policy Committee (MPC) held the Bank Rate at 5.25% on 1 February 2024, with the next meeting of the MPC due on 21 March 2024. The authority’s treasury adviser Arlingclose is forecasting that the chance of a cut in Bank Rate remains slim, with the second half of 2024 appearing more likely timing for the start of a relaxing cycle.

- Inflation rates are forecast to move lower over the next 12 months. By April the headline Consumer Price Index (CPI) rate will be likely be at or below the 2% target, but Arlingclose believe Bank Rate will remain unchanged until August 2024 and initially reduce slowly.

- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require substantial loosening in 2025 to boost activity.

- UK activity data remains relatively weak, although there has been come evidence of recovery in the services sector and housing market. Consumer confidence is low but on an improving trend; household spending on goods, though, remains under pressure.

- Global bond yields will remain volatile. Investors’ expectations of near-term US rate cuts have been dealt a severe blow by the continued strength of the US economy, particularly labour markets. Investors’ positioning for the timing of US monetary loosening will continue to influence movements in gilt yields.

GLOSSARY OF TERMS

Bail-In: an arrangement in which creditors of a failing financial institution are required to cancel come of its debts as part of a plan to save it from collapse

Financial Instruments: are assets that can be traded, or they can also be seen as packages of capital that can be traded

Gilts: fixed-Interest loan securities (Bonds) issued by the UK Government

Gilt Yield: the interest raids paid on UK Government Bonds

Money Market Fund: a mutual fund that invests in highly liquid, near-term instruments

Safe Haven: a type of investment that is expected to retain or increase in value during times of market turbulence, for example: gold or defensive stocks