Moray Council

Wednesday, 01 March 2023

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, 01 March 2023** at **09:30.**

BUSINESS

Watching the Meeting

You can watch the webcast live by going to:

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

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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.

THE 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
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REPORT TO: SPECIAL MEETING OF MORAY COUNCIL ON 1 MARCH 2023

SUBJECT: ACCOUNTING FOR SERVICE CONCESSIONS

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

1. REASON FOR REPORT

1.1 To provide Council with information on the changes permitted to how local authorities account for the repayment of debt on service concession arrangements and request approval of the Council revising its methodology for accounting accordingly.

1.2 This report is submitted to Committee in terms of section (II) (23) relating to the approval of the annual estimates of revenue expenditure.

2. RECOMMENDATION

2.1 It is recommended that Council approves:

(i) the implementation of the option in the guidance on service concessions to revise the accounting methodology as detailed in section 4, resulting in recurring savings of £1.2 million and a retrospective benefit of £11.2 million be approved; and

(ii) the saving from the retrospective benefit be ear-marked for loans charges associated with school new build / refurbishments as set out in paragraph 4.9.

3. BACKGROUND

3.1 Service concessions are contractual agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide those services lies with the contractor. The Council is deemed to control the services that are provided under the schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet. It also has a long-term liability (debt) reflecting the obligation to make payment for the service concessions.

3.2 A unitary charge is paid in respect of each service concession, split into three elements for accounting purposes: payment for services, repayment of debt and interest payable. The element relating to the repayment of debt is used to reduce the long-term liability in the balance sheet.

3.3 The Council has two service concessions: the Elgin Academy/Keith Primary School Public Private Partnership (PPP) and Elgin High School Design, Build, Finance, Maintain (DBFM) scheme. In 2011/12 the Council entered into a 30 year PPP contract for the construction, maintenance and operation of two schools in Keith and Elgin. The contractor took on the obligation to construct the schools and maintain them in a minimum acceptable condition. The annual unitary charge payment in 2021/22 was £5.170m. This increases annually by inflation. In 2017/18 the Council entered into a 25 years DBFM contract for the construction, maintenance and operation of a new school in Elgin. The contractor took on the obligation to construct the school and maintain it in a minimum acceptable condition. The annual unitary charge in 2021/22 was £2.545m. This increases annually by inflation.

3.4 The Council added assets of £45.1 million to its balance sheet in respect of the PPP. After taking into account capital contributions made by the Council a long term liability (debt) of £39.9 million was created. For the DBFM scheme the value of assets added to the balance sheet was £26.2 million, and a long term liability of £25.3 million was created. As at 31 March 2022 the total long term liability for both schemes is £51.3 million.

3.5 The accounting regulations followed to date oblige the Council to reduce the liability related to the assets over the life of the contracts (30 years and 25 years). By the end of this term, the debt outstanding would be nil and the assets will be transferred to the Council's ownership, with a remaining useful life (of 20 and 25 years respectively).

4. <u>SERVICE CONCESSION GUIDANCE</u>

4.1 The Scottish Government gave local authorities three options for accounting for the capital element of service concessions to revenue, set out in Finance Circular 10/2022, published in September 2022. The options are to continue to expense the long-term liability over the life of the service concession contract; to expense the liability over the expected life of the assets, or to account on a depreciation basis. Any change to the accounting method must be approved by Council in a report setting out the reason for the change. The report must make explicit that this change is prudent, sustainable and affordable over the life of the asset. The second option mirrors the rules for loans fund charges on assets funded from borrowing and is considered to be prudent, sustainable and affordable for the reasons set out below.

4.2 It should be noted that none of the options change the amount that the Council is obliged to pay contractors under the terms of the contract or the timescale over which these payments are made. The guidance relates to purely to the method of accounting for the service concessions.

4.3 The recommended change is considered to be prudent as it spreads the charge to the Council's annual expenditure over the life of the asset, in accordance with standard accountancy practice. Spreading the charge over a lesser period could be argued to be excessively prudent and to penalise today's Council Tax payers to the benefit of Council Tax payers in the future. It is more affordable in the short term to spread the cost over the longer period, as the annual cost is reduced. It is sustainable as the overall cost to the Council remains the same, albeit that cost is recognised over a longer period.

4.4 The loans charges for each year – principal and interest - may be calculated either in equal annual principal repayments with interest payments decreasing over time as the principal is reduced or by the annuity method, whereby the total capital plus interest remain constant, with in a lower principal repayment in the early years, increasing as time elapses. The annuity method is the preferred option, matching the Council's approach for loans fund charges on assets funded from borrowing that were acquired in the same financial years as the service concession arrangements. This is considered a prudent approach as it provides a charge that is better matched to how the benefits of the asset are consumed over its useful life – an asset's deterioration is slower in the earlier years of life and accelerates in later years – and is more affordable in earlier years.

4.5 Under this approach, the charge to revenue would be lower than the unitary charge paid to the operator during the period of the contract, but charges to revenue would continue beyond the contract term for the asset life. The total overall charges over the lives of the asset will be the same. Recurring savings of £1.2 million would be generated during the remaining period of the service concession contracts – in 2024/25 the annual charge would have been £2.317 million and will be £1.149 million under the new method. This saving is one of the financial flexibilities afforded by Scottish Government to assist local authorities. The saving is a key component of the draft budget presented to this meeting of Council.

4.6 As a result of lengthening the repayment period to align with the useful life of the asset there will be an additional cost to revenue each year after the end of the PPP and DBFM contracts until the end of the useful life of the buildings.

4.7 The guidance allows gives Councils the option to calculate the revised charge retrospectively and adjust the revenue account as if the asset life method had always been used. While this does not release cash (the contractors do not pay us money back), it means that the Council's General Fund balance can be increased by reversing part of the charge that has been made to date (this sits in an unusable reserve, the Capital Adjustment Account). This will result in a credit to the General Fund of £11.2 million.

4.8 The Council has submitted a bid to the third phase of the Scottish Government Learning Estate Investment Programme (LEIP). Under LEIP the Council would receive revenue funding on completion of the funded schools, on condition of them meeting certain targets for performance, but would have to finance the capital cost. It is proposed to take the retrospective benefit of £11.2 million in full in 2023/24 and to ear-mark this sum to fund the increase in loans charges for any of the projects associated with the LEIP 3 funding bid or for future loans costs of replacement schools if the LEIP 3 bid is unsuccessful. It is considered prudent to make budgetary provision for these costs to ensure that the LEIP bid is affordable and to otherwise facilitate improvement of the learning estate.

5. SUMMARY OF IMPLICATIONS

(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 which include financial sustainability.

(b) Policy and Legal

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

(c) Financial implications

Changing the basis on which service concessions are accounted for will generate recurring annual savings of £1.2 million and a one-off retrospective saving of £11.2 million. These savings will be matched by future charges after the contract end dates which can be met from existing budgets. The proposed approach is considered prudent as it better matches the costs to the useful life of the assets. It is also sustainable and affordable as the overall cost of repaying debt remains the same. Ear-marking the retrospective saving is prudent as it ensures affordability of further improvement to the learning estate.

(d) Risk Implications

There are no risk implications arising directly from this report. However, if the recommendations of the report are not approved there is a heightened financial risk to the Council of being unable to balance its budget in 2024/25.

(e) Staffing Implications

There are no risk implications arising directly from this report.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

No equalities implications arise directly from this report.

(h) Climate Change and Biodiversity Impacts

No climate change and biodiversity impacts arise directly from this report.

(i) Consultations

The Council engaged with its Treasury Management advisers in the preparation of this report. The Chief Financial Officer has been consulted and comments incorporated into the report.

6. CONCLUSION

6.1 Exercising the option to account for service concessions over the life of the asset rather than the life of the contract delivers annual revenue savings of £1.2 million. Re-profiling the debt in relation to the PPP/DBFM schemes would mean a retrospective gain of £11.2 million (section 4.5).

6.2 The annual saving is a key component of the draft budget presented to this meeting of the Council, reducing the budget shortfall in 2023/24 and future years.

6.3 The retrospective benefit should be ear-marked to facilitate investment in the learning estate.

Author of Report:	Laurie Milne, Senior Accountant
Background Papers:	
Ref:	SPMAN-1293228629-818

REPORT TO: **SPECIAL MEETING OF MORAY COUNCIL ON 1 MARCH 2023**

SUBJECT: **2023/24 BUDGET AND 2023 TO 2026 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 2023/24, to agree the Council's revenue and capital budgets for 2023/24 and to consider the Council's Financial Plan for 2023 to 2026.

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) An increase of 5% on Council Tax for 2023/24;

(ii) Provision of £9,598,000 for budget pressures as listed in APPENDIX 2;

(iii) Service developments totalling £704,000 as described in paragraph 4.14;

(iv) Savings totalling £1,677,000 as listed in APPENDIX 3;

(v) Budgeted expenditure of £260,130,000 for 2023/24;

(vi) Indicative budgets for 2024/25 and 2025/26 as set out in APPENDIX 1;

(vii) Capital expenditure of £59,186,000 for 2023/2024 as set out in the indicative ten year Capital Plan in APPENDIX 4;

(viii) Funding for Moray Integration Joint Board (MIJB) to increase by Moray's share of the £100 million still undistributed in 2023/24 compared to 2022/23, less £412,000 per the settlement letter from Scottish Government;

(ix) Use of ear-marked reserves totalling £1,613,000 for transformation, £759,000 for Moray Growth Deal cash flow and of £14,768,000 from covid reserves to balance the budget; and

(x) An increase of up to 27% in temporary accommodation charges to mitigate the budgetary impact as detailed in paragraph 5.7 as there has not been an uprating since 2015.

2.2 It is recommended that the Council notes:

(i) There will be conditions placed on the Council in terms of the settlement letter from the Depute First Minister and that these are still the subject of on-going communications;

(ii) Projected additional savings requirements of £18,741,000 in 2024/25 and £756,000 in 2025/26; and

(iii) A review of services is underway and will be the basis for community engagement on proposals to bring the Council's budget back into balance for 2024/25;

3. BACKGROUND

3.1 The Council's revenue and capital budgets for 2023/24 fall due to be considered in an environment of considerable uncertainty about the state of the economy, due to the continued impact of the covid-19 pandemic and geo-political pressures, with inflation at a level unseen for many years and bank rates increasing; when the teachers' pay award for 2022/23 is still not agreed and pay awards for all staff for 2023/24 are yet to be agreed, and when restrictions on elements of the Scottish Government grant award are being made, with some details emerging very recently and further clarification awaited.

3.2 The Local Government Settlement is for one year only but the Council is setting its 2023/24 budget in the context of longer term planning. Successive budgets at UK level and thereafter by Scottish Government in 2022/23 have seen a range of financial forecasts and it is difficult to interpret with certainty what these may mean for Scottish Local authority funding in the short to medium term. Continued reduction in real term funding seems inevitable given other Scottish Government commitments and generally downbeat forecasts for the Scottish economy. The proposed Scottish National Care Service would have a very significant impact on local authority funding and it is as yet unclear what the outcome of this proposal will be and what impact it will have. Consequently the focus of planning is on the three years ahead only. Without significant increases in core funding the financial outlook for Scottish local authorities appears bleak.

3.3 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.

3.4 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. At the meeting of Moray Council on 10 August 2022 the Council approved a hierarchical approach to the budget process, which prioritised income generation above service reduction (paragraph 16 of the Minute refers). The proposed increase in Council Tax reflects the agreed hierarchy and a balance between affordability and income generation in order to preserve services as far as possible.

3.5 Regular reports on the financial planning process have been made throughout the year. The latest report was considered by the Council on 7 December 2022 (paragraph 14 of the Minute refers) prior to financial circular 11/2022 (containing provisional grant details) being published on 20 December 2022. 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 the capital plan has been reviewed and the impact on revenue adjusted accordingly. Further savings are recommended.

Reserves

3.6 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 planned use of financial flexibilities of £3.1 million and use of reserves of £9.1 million to balance the budget. After the budget was set the flexibility to use capital receipts to fund covid-related expenditure was withdrawn, as it was contingent on permission from UK Government and that permission was not granted. The underlying overspend in 2022/23 has again been carried forward into 2023/24 and proposed savings for 2023/24 still leave a significant underlying overspend. Eradicating this underlying overspend for 2024/25 is a very challenging target. Actual use of reserves in 2022/23 will be sheltered by a loans pool holiday and a further one-off saving if the earlier report on the agenda for this meeting recommending amending the Council's accounting practices for service concession contracts is approved. That saving has not been assumed in the estimated actual below.

	Budgeted use of general reserves		Actual (est act 2022/23)	
	£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%	2.861	1.2%
2023/24	15.423	5.9%		

3.7 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 equates to around 2% of budgeted revenue expenditure on General Services. The Council had free general reserves of £15.349 million at 31 March 2021. Following a report on financial planning to Council on 15 September 2021 (paragraph of the Minute refers) it was agreed to transfer £8.816 million into ear-marked reserves, £1.816 million for the next stage of the Improvement and Modernisation Programme (IMP), £4,000,000 to cover cash flow for Moray Growth Deal (MGD) and £3,000,000 for Council priorities. Allocation of reserves to facilitate transformation of services and Council priorities is good practice and sets out clearly the available funding which the Council has to invest in these areas. The current balance on free general reserves is £5,000,000.

3.8 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 free monies. All the windfall funding was 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 £22,259,000 at 31 March 2022 and a balance of £19,398,000 is projected for 31 March 2023. 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.

3.9 The balances projected for 31 March 2023 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 Investment 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 balance of £3,536,000 for this reserve is projected for 31 March 2023, with further approved spend anticipated to reduce the balance to £1,914,000 by 31 March 2024. With the end of the derogation to use capital receipts to fund expenditure to facilitate efficiency savings this remains a modest balance which the Council has set aside against the need to generate saving of £20 million within the next three years,.

3.10 As yet there are no commitments against the ear-marked reserves for Council priorities, although a further report to this committee recommends setting aside £250,000 as a revolving fund to facilitate provision of rural housing. The reserves currently stands at £5,881,000. There are many competing Council priorities. One largely unbudgeted priority is Climate Change. This reserve could also be used to support generation of efficiencies through service transformation and may be required to support Moray Growth Deal (see paragraph 3.11).

3.11 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. Monies will start to be drawn down in 2023/24. 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. If this is the case the ear-marked reserves for Council priorities could be called upon to meet the additional cost.

3.12 If the service concession amendment is approved as recommended there will also be an ear-marked reserve of £11.2 million set aside to pay loans charges on new / refurbished schools). Major expenditure on the Learning Estate features in the later years of the capital plan, outwith the timeframe of the short to medium term financial plan. If expenditure on schools is to be accelerated – if Learning Estate Improvement Programme (LEIP) funding is awarded for example – then additional cost of borrowing currently unbudgeted for would arise in early course. The conditions of LEIP funding result in increased costs from those originally estimated and recent increases in construction costs are also not catered for in the estimates included in the indicative capital plan. It is prudent to take advantage of the opportunity offered by the retrospective service concession to ear-mark this sum.

4. REVENUE BUDGET

4.1 The draft revenue budget for 2023/24 to 2025/26 is set out in **APPENDIX 1** to this report.

4.2 The starting point for the 2023/24 budget is the budget for 2022/23. 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 2022/23 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 2023/24 budget is expenditure of £220,333,000. A summary of the adjustments to the 2022/23 budget is set out below:

	£000s
Budget reported to Council 07/12/2022 (Q2 budget monitoring)	253,079
Less funded from DSM etc	(2,378)
Redeterminations announced later	5,740
Other additional funding	105
Other savings agreed	(299)
Loans pool holiday	(7,583)
Budget to be carried forward	248,664
Adjustments to c/f budget:	
Reinstate one-off savings	8,721
Deduct one-off expenditure	(4,957)
Deduct budget pressures brought forward	(1,772)
Remove budget pressure for 1.25% increase in National Insurance	(700)
Reduce budget pressure for leisure income post-pandemic	(200)
Deduct new burdens funded by redetermination of General Revenue Grant	(4,494)
Add estimate of impact of teachers pay award (based on latest offer)	1,480
	246,742

Provision for pay and prices

4.3 Provision of £3,293,000 is made within the budget for pay awards and for some other inflationary increases in expenditure at the UK Treasury target for inflation of 2%. No provision has been made for pay awards for health and social care services delivered under direction from MIJB, as Scottish Government are requiring that local authority contributions to Integration Joint Boards must be at least the current recurring funding plus additional monies passed through, principally to fund the increase in the Living Wage. MIJB therefore has a measure of protection for inflation which other parts of the Council budget do not have.

4.4 Inflation is currently running above the UK Treasury target of 2% and the expectation from trades unions is for a settlement greater than 2%. The amount allowed for pay awards is one of the high risk areas of the proposed budget. An element of mitigation is provided by a general inflation pot, but this is intended to cover all additional inflationary pressures and not just pay.

4.5 Other standard inflationary increases included are for PPP/PFI contracts, fostering fees and allowances, ELC partner providers, school and other transport contracts, Grampian Valuation Joint Board requisition and increase in landfill tax rates. A separate inflation pot in addition to the standard 2% provision has been created within budget pressures in recognition that the normal planning assumptions for inflation do not hold good at the present time. The pot totals £5,000,000 and is included in budget pressures (see paragraph 4.13).

Financing costs

4.6 The Capital Plan is discussed in section 6 of this report. The estimated impact of planned capital expenditure in 2023/24 is included in the draft revenue budget, an increase in spend of £2,000,000. Interest rates have been increasing and in response to inflationary pressure the Bank of England again increased its base rate on 1 February 2023. 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 £2,257,000 comprises £1,204,000 for loss of income and additional expenditure anticipated to be incurred by the extension of free school meals for primary 4 and 5, £545,000 for the Whole Family Well-Being Fund and £508,000 relating to the devolution of Non Domestic Rate relief on empty properties.

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 total £9,578,000 for 2023/24. Indicative amounts are also shown for 2024/25 and 2025/26 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 2023/24 are discussed below.

4.9 Budget pressures in 2023/24 approved when the budget for 2022/23 was approved are: £700,000 for projected rising school roll numbers and Development Plan transport appraisals £100,000 (adjusted for timing difference). Expenditure approved by committee for the revised Improvement and Modernisation Programme is also included in this section, adjusted for timing differences since the budget for 2022/23 was approved to £1,302,000.

4.10 Budget pressures approved since the budget was set: reduction in brown bin charges £34,000 and increase in sustainable rate for early learning and Childcare partner providers £395,000.

4.11 Budget pressures approved for 2022/23 but where there has been slippage in implementation are recommended to be included in the budget for 2023/24. Scottish Government gave recurring funding in the 2022/23 settlement for the employment of additional teachers - this funding is planned to be spent on an academic year basis and therefore slippage against the first full financial year of funding occurred - £285,000. On the same basis there is an element of slippage on the expansion of universal free school meals - £373,000. Delay in setting up pop-up shops has caused slippage in business start-up grants - £53,000. Delays in developing the Bilbohall site for social housing require the budget pressure of £120,000 for site clearance to be brought forward into 2024/25 – the pressure relates to an estimate for additional loans charges which under the current methodology for calculating loans charges are not incurred until the financial year following the work. The balance of the budget pressures for the Devolved School Management scheme / class contact time review, additional Trades Union hours, Moray Growth Deal Early Years STEM, and Bus Revolution Revenue require to be drawn down to cover the full year effect of these pressures: £18,000, £11,000,£3,000 and £20,000 respectively. A total of £763,000 budget pressures are brought forward.

4.12 New budget pressures for 2023/24 arise as follows. The Council's liability for Non Domestic Rates has risen by £400,000 following the revaluation of NDR which takes effect from 1 April 2023. Scottish Government have announced that any reduction in NDR liability following appeal by local authorities will be matched by a reduction in that local authority's funding from Scottish Government. Consequently this becomes an unavoidable budget pressure. The specific grant for Early Learning and Childcare is in transition to being formula driven and as part of this process has been reduced by £190,000, resulting in an increased budget pressure for this service which is experiencing increased demand. The library service has budgeted income of £26,000 from the Passport Office but the checking service is no longer funded and has accordingly stopped. The DWP have reduced the grant for Housing Benefit administration by £7,000. In common with other areas in Scotland the Council is seeing an increased number of people presenting as homeless and the consequent costs of temporary accommodation are over budget by £200,000 – this is expected to continue. Increased volume of leachate is being disposed of at an increased cost of £77,000. The dredger requires a mid-term loadline survey, at a one-off cost of £30,000. There is additional demand for ASN school transport at a cost of £66,000. Council vehicles can no longer use red diesel and the cost of fuel for the Waste Management service has risen with the move to white diesel - £127,000. The cost to the Council of the Scottish Government deposit return scheme planned to launch in August 2023 is currently estimated at £30,000. Further details of the scheme are awaited. New budget pressures total £1,173,000.

4.13 The impact of inflation in recent months has been widely publicised. An inflation pot of £5,000,000 is recommended and is included in the draft budget as set out in paras 4.3-4.5 above.

Service Developments

4.14 Two service developments approved when the budget for 2022/23 was set have slipped; school real time data, where the plan had been to recruit a member of staff to carry out this work – as this was unsuccessful the service is exploring alternative methods - £63,000; youth work in Buckie and Forres – this has recently commenced - £120,000. £430,000 was approved to support the Levelling Up Fund (LUF) bid and it is recommended that the balance of £221,000 is carried forward into 2023/24 to support a bid to the third round of LUF. A further service development is proposed for 2023/24 – a one-year additional programme of road patching: £300,000 in light of the impact of the poor winter conditions recently experienced on the network.

4.15 With these additions the total budgeted revenue expenditure for 2023/24 before savings is £264,574,000.

Funding

4.16 The bulk of the Council's funding is from government grant, given as a combination of General Revenue Grant and Non Domestic Rates distribution. The current iteration of finance circular 11/2022 includes funding of £190,941,000. Scottish Government have confirmed that this does not include funding for the teachers' pay award for 2021/22 which is recurring funding and that this will be rectified when the final finance circular is issued following approval of the Local Government Finance (Scotland) Order 2023. An estimate of £585,000 is included in the draft budget, along with the funding towards SJC pay award for 2022/23 which is being distributed as capital grant in 2022/23 and 2023/24. This brings the total estimated revenue grant funding to £193,416,000, of which £2,257,000 relates to new burdens, as described in paragraph 4.7 above.

4.22 A Council Tax increase of 3% had been used as a planning assumption in the financial planning process leading to this budget. The draft budget includes as a recommended increase of 5%, as a contribution towards the funding gap. The latest measures of inflation, at January 2023, are 8.8% for the Consumer Price Index including owner occupiers' housing costs (this is the UK Government standard measure of inflation), Consumer Price Index 10.1% and Retail Price Index (no longer an official statistic but still reported) 13.4%, and so the proposed increase is lower than current measures of inflation. It is estimated that this will generate income of £49,574,000 for the Council, an increase of £942,000 from the assumed 3%.

4.23 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.

	Council Tax 2022/23	**Council Tax proposed 2023/24**
Band A	£908.37	£953.79
Band B	£1,059.77	£1,112.76
Band C	£1,211.16	£1,271.72
Band D	£1,362.56	£1,430.69
Band E	£1,790.25	£1,879.77
Band F	£2,214.16	£2,324.87
Band G	£2,668.35	£2,801.76
Band H	£3,338.27	£3,505.19

4.24 Moray’s Band D Council Tax for 2022/23 sits just above the Scottish average of £1,347. Comparisons with other councils are set out in the table below.

COUNCIL TAX BY BAND 2022-23

Scotland Average Band D Council Tax (based on total Band D Equivalents)		£1,347
	Band D	**%age of Scottish average**
Shetland Islands	£1,206.33	90%
Na h-Eileanan Siar	£1,229.29	91%
South Lanarkshire	£1,233.00	92%
Angus	£1,242.14	92%
Orkney Islands	£1,244.73	92%
North Lanarkshire	£1,257.89	93%
Dumfries & Galloway	£1,259.30	93%
Falkirk	£1,274.60	95%
Scottish Borders	£1,291.53	96%
West Lothian	£1,314.71	98%
Fife	£1,319.22	98%
West Dunbartonshire	£1,332.36	99%
East Renfrewshire	£1,335.11	99%
Aberdeenshire	£1,339.83	99%
East Lothian	£1,341.69	100%
Clackmannanshire	£1,343.77	100%
East Dunbartonshire	£1,348.25	100%
Perth & Kinross	£1,351.00	100%
Renfrewshire	£1,354.88	101%
Inverclyde	£1,357.81	101%
Moray	£1,362.56	101%
Highland	£1,372.29	102%
City of Edinburgh	£1,378.75	102%
North Ayrshire	£1,382.97	103%
South Ayrshire	£1,383.96	103%
Stirling	£1,384.58	103%
Argyll & Bute	£1,408.76	105%
East Ayrshire	£1,416.61	105%
Aberdeen City	£1,418.62	105%
Dundee City	£1,419.03	105%
Glasgow City	£1,428.00	106%
Midlothian	£1,442.60	107%

Excludes Water and Sewerage
Source: As reported by the Local Authorities on the statistical return Council Tax Assumptions 2022

4.25 The resultant budgeted income to the Council for 2023/24 leaves a shortfall of income compared to expenditure of £21,604,000, which requires to be found from savings or the use of financial flexibilities, which failing from reserves.

5. SAVINGS

5.1 Savings totalling £2,300,000 have been approved to date and these are listed on **APPENDIX 3**. Indicative savings of £488,000 from the Improvement and Modernisation Programme are also included.

5.2 Further savings for 2023/24 totalling £1,677,000 are presented to Council today. These are listed on **APPENDIX 3** and discussed below.

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 pro rata to the average pay award for 2022/23 to non-teaching staff - £225,000.

5.6 The accounting treatment of service concession contracts is the subject of another report to this meeting of Council. If approved annual savings of £1,168,000 will be generated.

5.7 Four further savings are proposed at this juncture. The Council provides support to Area Forums by way of support from the Community Support Unit and also financial support. It is proposed that the financial element of support is withdrawn, at a saving of £4,000. It is proposed that charges for temporary accommodation for people who present as homeless are increased to reflect the absence of any increases since 2015, offsetting a budget pressure of £220,000 with estimated income of £230,000– full detail of this is included in section 9 the HRA budget setting report to this meeting of Council. It is anticipated that the increased charges will usually be met from Housing Benefit. A new duty for the Council is to prepare a Local Housing Energy Efficiency Strategy (LHEES). The General Revenue Grant has been increased by £75,000 to facilitate this. It had been planned to employ a temporary member of staff for 3 years to prepare the LHEES but this component (£50,000 over each of 3 years) is now offered as a saving with the additional work to be absorbed by the Climate Change team. The final savings proposed is the Employee Assistance Programme. This was agreed as a saving when the budget was set in 2020 and the budget of £15,000 removed. It has continued to be funded through covid monies. It is now proposed again as a permanent saving in line with the pre covid decision.

5.8 That reduces the funding shortfall to £17,139,000. £1,613,000 was approved to be spent from ear-marked reserves for transformation and £759,000 relates to loans charges to be met from the ear-marked reserves for MGD cash flow management. This leaves a balance of £14,767,000 as the true funding gap.

5.9 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 3.7).

5.10 Officers are currently investigating a range of further potential savings at the request of the Administration Group. Meanwhile, officers will also continue with consideration of identification of other potential savings including transformation proposals. Further reports will be made in early course with a view to making recommendations for in-year savings and thus reducing reliance on reserves.

6. CAPITAL BUDGET

6.1 The latest version of the Council's Capital Strategy was approved by Council on 2 February 2023. The Strategy identifies the Council's capital investment objectives as ensuring an adequate suite of assets to deliver the Council's services, in accordance with the Council's policies, strategies and plans, and priorities, legislative duties and other requirements and identifies as a key consideration when developing the Capital Plan the requirements to provide new infrastructure and facilities to accommodate planned local developments, along with expenditure arising from Asset Management Plans (AMPs).

6.2 Accordingly, the Capital Plan is framed by the following drivers for expenditure:

- Local Development Plan and other Council plans (specifically for Economic Development)
- Asset Management Planning
- Expenditure arising from Legislative Requirements
- Improvement and Modernisation Programme/efficiencies
- Funded Government Priorities
- Other Developments to meet Council Priorities
- Responsive Expenditure

6.3 The indicative ten year capital plan prepared in 2022 has been reviewed in the light of increasing costs and any change in requirements and is included as **APPENDIX 4** to this report. Expenditure of £590.1 million is proposed for 2023/24, with total expenditure over the 10 year period of £501.1 million. Expenditure under the draft plan and sources of funding are summarised below:

	Driver	2023/24 £m	2023/24 %age	10 year £m	10 year %age
1	Local Development Plan and Economic Development	30.5	52%	101.6	20%
2	Asset Management Planning	24.5	42%	381.8	77%
3	Expenditure arising from Legislative Requirements	0.9	1%	10.5	2%
4	Improvement and Modernisation Programme/efficiencies	0.8	1%	0.9	-
5	Funded Government Priorities	0.2	-	0.2	-
6	Other developments to meet Council Priorities	2.2	4%	5.1	1%
7	Responsive Expenditure	0.1	-	1.0	

	Driver	2023/24 £m	2023/24 %age	10 year £m	10 year %age
	TOTAL	59.1	100%	501.1	100%
	Funding	**£m**	**%age**		
	Grant Funding	18.1	31%	141.5	29%
	Developer Obligations	0.1	-	5.6	1%
	Prudential Borrowing	40.8	69%	352.5	70%
	Capital receipts	0.2	-	1.5	-
	TOTAL	59.1	100%	501.1	100%

6.4 The Council's Financial Regulations envisage the detail of capital works being approved by service committees at the start of the financial year, and that process is well established. Accordingly, as in previous years the Capital Plan is presented in outline format, with detail to be brought forward to service committees. The detail used to underpin the development of the capital plan for 2023/24 is set out below for information.

7. <u>10 YEAR CAPITAL PLAN</u>

7.1 There are a number of significant pieces of work being undertaken which will reshape the capital plan in future years. An overarching piece of work which will impact across asset types and specifically on buildings and vehicles is the Council's Climate Change Strategy. Depending on how the Council decides to take forward this strategy following the next review of the Climate Change Routemap, an extensive programme of work will be required and funding will be needed for that programme. In addition to this, the Learning Estate review and review of the Council's leisure estate will have implications for those service specific assets.

Bridges

7.2 The Council's programme of bridge refurbishments is an asset management programme based on condition surveys and strategic importance, and is kept under review. Failing bridges can be life-extended by having weight restrictions placed on them, but this is not always a practical solution, depending on the type of traffic using the bridge and the availability of alternative routes. The indicative requirement over the 10 year plan is for expenditure of £14.2m, with £810,000 proposed for 2023/24. The programme of work is reviewed annually and detailed proposals will be presented to Economic Development and Infrastructure Services Committee in April.

Corporate

7.3 This budget heading is mainly driven by asset management planning. The major item is the Council's vehicle and plant replacement programme. The budget for vehicle and plant replacement is currently based on a like-for-like replacement of vehicles under the Council Fleet AMP, which seeks to replace vehicles at the optimum time in their life-cycle, taking into account maintenance costs and downtime, and therefore optimum cost to the Council and currently stands at £3,531,000 for each year of the ten year plan, with a budget of £5,563,000 in 2023/24 reflecting slippage in spend arising from delayed delivery times during the pandemic. As the Council's Zero Emission Fleet Strategy is developed the vehicle replacement programme will be modified and the issues and current approach taken were reported to Economic

Development and Infrastructure Services Committee on 7 February 2023 (paragraph x of the Minute refers). A sum of £1,475,000 is provisionally included in 2023/24 for works on depots. This will be planned in detail following the depot review and consideration of reduced carbon fleet requirements. A budget of £250,000 has been carried forward from 2022/23 for low fleet carbon requirements, also a budget of £500,000 for other climate change issues. These are notional amounts and plans have yet to be developed. Small budgets for office furniture and audio visual equipment replacement and facility management equipment are included. These total £32,000. A budget of £40,000 is included each year for work arising from legionella and fire safety inspections. There is an annual budget of £15,000 for minor energy efficiency projects.

Early Learning and Childcare

7.4 The original plans for implementing the extension from 600 to 1140 hours of funded ELC included refurbishment of Aberlour ELC accommodation. This was put on hold but is included in 2023/24 capital plan at £0.9 million. More stringent requirements from the Care Commission have resulted in additional work at a number of settings following Care Commission inspections and a sum of £0.49 million is included to cover those works. Slippage of £0.117 million is carried forward from 2022/23.

Economic Development

7.5 The capital components of the Moray Growth Deal which will flow through the Council (ie excluding partner-funded contributions) are included in this section and match the capital expenditure included in approved Outline Business Cases (Full Business Case for Digital Health). These total £26.7 million in 2023/24, with government grant of £9.5 million anticipated. The profile of government grant funding is largely flat and so the Council will be borrowing to fund the grant between expenditure and income in the early years of MGD. The pattern will be reversed in later years.

Flood Risk Management and Coastal Protection

7.6 This budget line includes provision in future years for the construction of coastal flood protection schemes at Lossiemouth Seatown and Portessie. Both these schemes are contingent on grant funding from the Scottish Government. The only provision in 2023/24 is for residual expenditure on the Elgin flood alleviation scheme.

Harbours

7.7 The main expenditure on harbours is a programme founded on asset management principles and based on condition information. Provision of £283,000 is included in 2023/24 for upgrade and replacement of life-expired elements across all the Council’s harbours. An additional allocation of £285,000 for additional dredging at Buckie harbour to deepen the harbour entrance is included for 2023/24 only. This is to facilitate the usage of the harbour by the windfarm operator.

ICT

7.8 A sum of £611,000 has been included in the capital plan for 2023/24, reduced by an allowance of £200,000 for slippage, based on previous years patterns of spend. Spending proposals will be developed and brought forward as the requirements of smarter working and schools requirements are established.

Industrial Portfolio

7.9 This budget is for development of the industrial portfolio, in support of economic development in Moray. The details of planned expenditure are to be reviewed by the service, with a view to deferring expenditure planned for 2023/24 for three years as far as possible. A target of a minimum of £2 million slippage is included in the capital plan for 2023/24. Typically developments are run at a net cost to the Council for 10 years so deferral in the current climate makes financial sense and also reflects the difficulties experienced in advancing some of the planned developments in 2022/23.

Libraries and Leisure

7.10 A sum of £139,000 is included for immediate works on libraries as identified by the recent conditions survey. Detailed plans will be reported to ECLS Committee before commencing. The use of this budget in future years will be planned following conclusion of the review of the leisure estate.

Parks and Open Spaces

7.11 This budget covers new or extended cemetery provision in accordance with the Council's cemetery provision policy; upgrading existing cemetery infrastructure; an annual rolling programme of replacement of equipment in play areas, and upgrade of parks and open space infrastructure. The main part of the budget in 2023/24 (£2,160,000) is for additional cemetery provision in Elgin. There is also budget allocation for £50,000 for cemetery infrastructure in other areas. The rolling programme of play area equipment is to refurbish 2 local play areas each year at a cost of £100,000 pa, with an additional £35,000 for the refurbishment of equipment and safer resurfacing. Work is planned to achieve a balance between play value – meeting customer needs through community engagement – and lower maintenance costs, eg replacing loose fill surfacing with rubber, which requires less maintenance, a spend to save approach. The programme has been progressed using Participatory Budgeting (PB).

Roads

7.12 The draft capital plan for 2023/24 includes £4,350,000 for resurfacing, reconstruction, surface dressing, drainage, footways and kerb replacement, with a reduction of £400,000 to reflect the level of slippage seen in recent years. A further £840,000 is included for improvements to minor roads affected by timber traffic. This sum will be used as match-funding to leverage in external funding.

Road Safety

7.13 This budget heading covers a range of road safety measures: barriers, traffic islands, lines, pelican crossings, minor junction improvements, dropped kerbs, disabled parking spaces, road signs and markings. £366,000 is included in 2023/24, with budget deferred from 2022/23 included.

Street Lighting

7.14 This budget of £800,000 is for the replacement of life expired columns, a rolling programme of asset management.

Traffic

7.15 This budget is an allocation of £23,000 for the replacement of life-expired traffic signals and traffic data collection equipment

Waste Management

7.16 This budget consists of £350,000 for works at the Dallachy Landfill Site, Spey Bay, as this site remains operational and will be operational until either all void capacity within the site is utilised, or the 2025 landfill ban on biodegradable material comes into force. Provision of £225,000 is made for the upgrade of facilities at Gollachy Recycling Centre, Buckie in 2022/23. £100,000 is included for the purchase of new domestic and trade waste bins; £20,000 for replacement containers for recycling centres, and £18,000 for gull-proof bins.

Learning Estate Strategy

7.17 A total of £157 million is included in the indicative 10 year plan for new build / refurbishment of schools. The current plan for 2023/24 includes budget of £654,000. Planned expenditure may have to be reprofiled, depending on the results of the Council's application for LEIP funding for Forres Academy and Buckie High School.

Schools BB, Building Element replacement and Other Minor Works

7.18 Provision of £3 million is made in 2023/24 building element replacements and a further £1 million included for design work preparatory to transitioning from building element replacement – essentially responding to failed elements, usually heating systems - towards bringing schools up to B for both condition and suitability, which will be a rolling programme of works from 2024/25 onwards. Provision of £165,000 has also been made for works arising from fire safety and other similar inspections, and of £40,000 for accessibility adaptations.

Astro-turf pitches

7.19 The draft capital plan for 2023/24 includes £300,000 for rejuvenation of existing astro-turf pitches, as part of a rolling programme of asset management of pitches. The £700,000 allocation for construction of an astro-turf pitch in Forres originally included in 2022/23 and deferred into 2023/24 is proposed to be further deferred pending the outcome of the application for Learning Estate Investment Programme (LEIP) funding for Forres Academy.

8. <u>BUDGET RISKS</u>

8.1 The following areas are considered to represent high risk areas for the Council's budget in 2023/24 and future years:

- Pay awards
- Increasing inflation rates and interest rates
- Future settlements and level of effective ring-fencing of funds
- Social Care and ASN, where demand is escalating
- Early Learning and Childcare, where funding is decreasing and significant budget pressures have been identified
- The condition of the Learning Estate

8.2 Mitigations to these risks are:

- The inflation pot provision
- Ear-marking the service concession retrospection (if approved)

9. SUMMARY OF IMPLICATIONS

(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).

The Local Government (Scotland) Act 2003 (section 35) places a duty on local authorities to manage their capital expenditure. It also provides for Scottish Government to issue regulations for the governance of capital expenditure. In practice this means that compliance with the CIPFA Prudential Code is in effect a statutory duty.

(c) Financial implications

The 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 in 2023/24 and reduced core government funding.

Savings have been identified and the financial flexibilities allowed by Scottish Government assist in covering costs. However, a significant funding gap remains and it is proposed to fill this by use of ear-marked covid reserves in 2023/24

A continued and heightened budget gap is forecast for 2024/25. Early action to tackle this projected funding gap is required.

(d) Risk Implications

The forecast deficits for 2023/24 and 2024/25 represent a significant risk to the Council.

The proposed budget for 2023/24 is subject to the following specific risks:

- The level of the pay award is unknown at present.
- 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 rate of inflation is rising and forecast to rise further. The provision for inflation may not cover all calls upon it

- A particular risk relates to construction inflation and this has already significantly impacted on the capital plan but could have further impact
- 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 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 rises.
- 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 MIJB is anticipating to operate within budget in 2022/23 by using reserves. There is an underlying overspend which is forecast to increase during 2023/24 and MIJB are seeking to identify savings to cover this. There is no guarantee that there will not be an actual overspend in 2023/24 in the challenging environment in which it is currently operating and 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.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

The equality duty

Under the equality duty (set out in the Equality Act 2010) the Council must have 'due regard' to the need to eliminate unlawful discrimination , harassment and victimisation as well as well as to advance equality of opportunity and foster good relations between people who are in a protected group and those who are not.

Groups protected by the Act are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

Councillors need to consider the effects of budget proposals on these protected groups before making a decision on the recommendations. An 'equalities impact assessment' or EIA is a recognised way of doing this.

One of the proposed savings requires an EIA and this is included as **APPENDIX 5** to this report.

Socio-Economic Impact
The proposals do not impact on the socio-economic duty.

(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 have been consulted in the preparation of this report.

11. CONCLUSION

11.1 The Council's proposed revenue budget for 2023/24 requires use of financial flexibilities and use of ear-marked reserves to balance.

11.2 Significant further savings are forecast to be required in 2024/25 and early action is required to tackle this issue.

Author of Report: Lorraine Paisey, Chief Financial Officer
Background Papers:

(SPMAN-1293228629-817)

BUDGET OVERVIEW AS AT 17 FEBRUARY 2023

	2022/23	2023/24	2024/25	2025/26
Revenue Expenditure	£000s	£000s	£000s	£000s
Service allocations (assuming prior year savings are achieved)	239,957	248,664	260,180	246,075
Adjustments to brought forward figure:	(17,542)	(1,922)	(1,816)	50
Opening budget	222,415	246,742	258,364	246,125
Pay and price increases	5,282	3,293	4,236	4,120
(Decrease) / Increase in Loan Charges	700	2,000	1,500	(495)
New Burdens	6,484	2,257	0	0
Budget pressures:				
Approved when budget set	16,499	2,122	960	60
Approved after budget set	3,787	429		
Emerging (for approval)	4,169	7,047	858	
Service developments – approved - proposed	645	404 300		
Total expenditure before savings	259,981	264,594	265,918	249,810
Revenue Funding				
General Revenue Grant / NDRI	192,839	191,159	193,446	195,380
New burdens funding not included in grant above	6,484	2,257	0	0
Council Tax	41,505	49,574	51,493	53,382
Release from Repairs and Renewals Reserve	704			
Funding from General Reserves:				
Funded from Ear-marked reserves:				
Transformation	1,944	1,613	0	
Covid	2,861	14,768	0	
MGD cash flow		759	1,136	
Total funding	246,038	260,130	246,075	248,763
SAVINGS REQUIRED		4,415	19,842	1,058
Note: Impact of estimated actuals	(3,900)			
Savings Summary				

		2022/23		2023/24		2024/25		2025/26
Savings Approved:								
Approved when budget set		1,245		170		0		
Temporary savings including financial flexibility		8,721		825		50		
Further savings approved		968		1,305		728		47
Indicative Savings from I&M Programme		263		488		374		245
Other savings proposed		120		1,677		100		
Savings to be identified		0		0		18,590		766
Total savings required		11,317		4,415		19,842		1,058
Estimated Free Balance on General Reserves		5,000		5,000		5,000		5,000
Estimated Balance on covid Reserve		19,697		4,879		4,879		4,879
Estimated Balance on Transformation Reserve Note (1)		3,536		1,924		1,924		1,924
Estimated balance on MGD cash flow reserve		4,000		3,241		2,105		2,105
Estimated balance on Council priorities reserve		5,881		5,881		5,881		5,881
Estimated balance on Learning Estate reserve		11,200		11,200		11,200		11,200

Note 1

Assumes all approved expenditure spent in full – spend profile may vary from above.

APPENDIX 2

BUDGET PRESSURES

	Approved	2023/24 £000s	2024/25 £000s	2025/26 £000s
Social Care				
Children in transition to adult services			200	
Schools				
Additional teachers	MC 22/02/22	285		
School roll numbers		700	522	
ELC specific grant - cut		190		
ELC uplift to sustainable rate	MC 02/02/23	395		
Education Communities & Resources				
School transport - ASN		66		
Universal free school meals (P5)	MC 22/02/22	293		
Free school meals holiday provision	MC 22/02/22	80		
Review of DSM / class contact hours	MC 22/02/22	18		
Loss of library income from passport checking		26		
Closure of swimming pools for refurbishment			55	60
Economic Growth & Development				
MGD STEM Project Officer	MC 03/03/21	3		
MGD revenue contribution STEM				62
MGD Bus revolution revenue	MC 22/02/22	20		
Development Plan Scheme - transportation appraisals	Plan & Reg 23/03/21	100		(50)
Economic Recovery Plan	MC 28/10/20	53		
Renewables income	MC 22/02/22	5		
Environmental & Commercial				
Leachate		77		
Waste Management fuel		127		
Mid term loadline survey (dredger)		30	(30)	
Garden waste permits	MC 07/12/22	34		
Deposit return scheme		30		
Housing and Property				
Development of Bilbohall site			120	
Homelessness		220		
Governance etc				
Reduced admin funding from DWP for Housing Benefits		7		
Financial Services				
Procurement Officer (0.5 fte)		28		
Corporate / cross service				
Revised IMP	MC 12/05/21	1,302		
NDR revaluation		400		
Trades Union extra hours		11	(11)	
Inflation pot		5,098	899	
TOTAL		**9,598**	**1,755**	**72**

APPENDIX 3

SAVINGS

	Approved	2023/24 £000s	2024/25 £000s	2025/26 £000s
Savings approved				
Economic Growth and Development				
Statutory fees for planning applications	MC 28/09/22	110	40	40
Advisor role	MC 28/09/22		15	
Housing & Property Services				
Closure Quarryhill	H&C 21/06/22	28		
Supported accommodation Covesea Road	H&C 06/09/22	150		
Property Services admin	MC 28/09/22	26		
Education Resources and Communities				
Auchernack	MC 27/02/19	20		
ASN contracts	MC 28/09/22	60		
Library contract management system	MC 28/09/22		7	7
Environmental & Commercial Services				
Salt store (Keith depot)	MC 29/06/22	35		
Hire out roads machinery	MC 28/09/22	100		
Closure of Dallachy landfill site	MC 28/09/22		630	
3 weekly recycling collection	MC 28/09/22	136		
School transport (in-service days)	MC 28/09/22		6	
Charges for temp bus stops	MC 28/09/22	2		
Harbours commercial income	MC 28/09/22	336	30	
TRO charges	MC 28/09/22	16		
Recharges to capital	MC 28/09/22	142		
Children's Services				
Temp Head of Service post	MC 28/01/22	54		
Financial Services				
Restructure	MC 28/09/22	16		
Purchasing cards VAT recovery	MC 28/09/22	30		
NDR Empty property relief	MC 02/02/23	44		
Corporate / cross service				
Increase in charges	CC 31/01/23	150		
EV /ULE vehicles salary sacrifice scheme	MC 07/12/22	20		
Temporary Savings				
Dallachy spare capacity - income	MC 28/09/22	725		
Grampian Valuation Joint Board refund of requisition	MC 28/09/22	50		
Total savings approved		**2,250**	**728**	**47**

	Approved	2023/24 £000s	2024/25 £000s	2025/26 £000s
Savings proposed				
Housing & Property Services				
Homelessness service charge		230		
Review of Out of Hours service			10	
Economic Growth and Development				
Local Housing Energy Efficiency Strategy		50		
Schools				
Service concession		1,168		
Education Resources and Communities				
Area Forums		4		
Corporate / cross service				
Vacancy factor		225	90	
Employee Assistance Programme (1)				
Total savings proposed		**1,677**	**100**	
TOTAL		**3,977**	**828**	**47**

(1) This was previously approved as a saving of £15,000 and budget removed – it has been funded from covid reserves.

INDICATIVE SAVINGS: IMPROVEMENT AND MODERNISATION PROGRAMME

	Agreed	2023/24 £000s	2024/25 £000s	2025/26 £000s
Stream 2: ICT & Digital - Schools Admin	MC 03/03/21	56		
Stream 4: Review & Expansion of Flexible Working	MC 03/03/21	44		
Stream 6: Transforming Children's Services – care placements Reduction in investment costs	ECLS 26/01/22	245 18	245 4	245
LEAN review		125	125	
TOTAL		**488**	**374**	**245**

Area	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	Total
Bridges	810	7,164	800	1,290	992	2,141	420	500	50	50	14,172
Corporate	7,875	3,611	3,611	3,611	3,611	3,612	3,612	3,612	3,612	3,612	37,079
Early Learning and Childcare	1,507										1,507
Economic Development	26,713	15,506	13,995	3,745	6,068	3,756	1,133	1,030	1,261	1,261	49,181
Flood Risk Management & Coastal Protection	468	100	308		1,050	4,400					6,326
Harbours	568	217	1,160	300	900	300	300	900	300	300	4,660
ICT	411	579	542	502	632	502	562	502	502	502	5,236
Industrial Portfolio	3,709	1,105	2,286	2,190	60	725	1,210	80			11,365
Libraries & Leisure	2,799	1,860	260	320	1,660	60	60	60	120	120	7,319
Parks & Open Spaces	2,445	915	285	285	285	285	285	285	285	285	5,640
Road Improvements	4,790	4,200	4,200	4,600	4,600	4,600	4,600	4,600	4,600	4,600	45,390
Road Safety	366	334	328	330	407	312	312	312	312	312	3,325
Learning Estate Strategy	654	12,250	6,750	32,475	10,920	18,182	62,620	256			144,107
Schools	4,205	7,705	10,205	10.205	10,205	10.205	10,205	10.205	10,205	10,205	93,550
Astroturf pitches	300	1,000	250			250					1,800
Street Lighting	800	800	800	800	800	800	800	800	800	800	8,000
Traffic	23	39	7	43	43	1,061	39	39	39	39	1,372
Waste Management	743	131	120	120	120	120	120	120	120	120	1,834
Total expenditure	**59,186**	**57,516**	**45,907**	**70,653**	**62,516**	**51,361**	**86,278**	**23,301**	**22,206**	**22,206**	**501,130**

Funding											
Grants & Contributions	(15,629)	(18,199)	(14,760)	(16,619)	(15,346)	(15,835)	(15,821)	(14,852)	(15,615)	(10,063)	(152,739)
Loans	(35,096)	(35,347)	(48,920)	(34,088)	(49,314)	(57,502)	(31,203)	(76,851)	(13,775)	(18,488)	(400,584)
Receipts	(700)	(156)	(156)	(156)	(156)	(156)	(155)	(155)	(155)	(155)	(2,100)
Total funding	**(51,425)**	**(53,702)**	**(63,836)**	**(50,863)**	**(64,816)**	**(73,493)**	**(47,179)**	**(91,858)**	**(29,545)**	**(28,706)**	**(555,423)**
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

SECTION 1 - DO I NEED AN EIA?

DO I NEED AN EIA?

Name of policy/activity: Remove Employee Assistance Provider programme
Please choose one of the following: Is this a: • New policy/activity • Existing policy/activity? This is a new activity. • Budget proposal/change for this policy/activity √ • Pilot programme or project?

Decision Set out the rationale for deciding whether or not to proceed to an Equality Impact Assessment (EIA) Removing employee support could impact on particular groups of staff i.e. staff with mental health or general health issues, carers, age related issues e.g. stress at home and work due to family and career commitments, those impacted by menopause, social economic reasons including cost of living crisis, staff reductions and those continuing to recover from the effects of the pandemic EIA required: Yes **Date of Decision:** 13.02.2023

If undertaking an EIA please continue onto the Section 2. If not, pass this signed form to the Equalities Officer.

Assessment undertaken by:

Director or Head of Service	Frances Garrow, Head of HR, ICT and OD
Lead Officer for developing the policy/activity	Anne Smith, Senior OD Adviser
Other people involved in the screening (this may be council staff, partners or others i.e contractor or community)	Don Toonen, Equal Opportunities Officer

SECTION 2: EQUALITY IMPACT ASSESSMENT

Brief description of the affected service

1. Describe what the service does: The employee assistance programme service provides a 24 hour, 365 days a year service for psychological, emotional and practical support, which can be accessed by any employee when they need it. Services they offer include: • Telephone support & guidance • Information & resources including links, podcasts, templates and exercises • Structured telephone counselling • Video conferencing / Face to Face counselling • Live Chat service. This service is available for staff and their family who are residing at the same address who are 16 years and over.
2. Who are your main stakeholders? Staff
3. What changes as a result of the proposals? Is the service reduced or removed? The proposal is to remove the service. This will mean that staff are reliant on local and national providers for support or their GP/NHS.
4. How will this affect your customers? In the current year to date (April 22 – Dec 23 – ref EAP quarterly reports) there have been 66 referrals made to the service. This represents 1.3 % of the workforce. This equates to a cost of approximately £170 per person making initial contact with the service. Where the service is removed staff members will require to source support from another provider or privately. The service is open to all employees. Of the 66 staff members using the service 73% were female and 27% were male which aligns with the council's gender split. The age of those employees accessing the service was also closely aligned with that of the council's age profile. 57% of users were aged 45 or over. The council's main reason for long term absence is stress, depression and anxiety. (Ref Annual Report 2022) and failure to access early intervention may have an impact on absence rates and the wellbeing of staff.

The impact of the pandemic on mental health is still being realised across the workforce with the Mental Health and Wellbeing Pulse survey demonstrating an increase in the numbers of staff experiencing a mental health condition in the past year. Additionally with an aging workforce the council is likely to see an increase in age related health conditions including menopause. Currently the service is predominantly used by female workers. 75% of Moray Council's workforce is female and 55% are in the lowest 3 or 4 grades although it is not possible to accurately map the users of the service to this group. The service is also provided to (and to a small extent used by) foster carers and member's of staff families. The reasons for accessing the service are both work and personal reasons or a combination of both. With the immenitent budgetary challenges ahead and possible impact on the workforce, the council may see a rise in the cases of depression, stress or anxiety which is currently reported as the most common reason of long term absence.

5. **Please indicate if these apply to any of the protected characteristics**		
Protected groups	**Positive impact**	**Negative impact**
Race		
Disability		
Carers (for elderly, disabled or minors)		
Sex		
Pregnancy and maternity (including breastfeeding)		
Sexual orientation		
Age (include children, young people, midlife and older people)		√
Religion, and or belief		
Gender reassignment		
Inequalities arising from socio-economic differences		√
Human Rights		

6. Evidence. What information have you used to make your assessment?

Performance data	
Internal consultation	
Consultation with affected groups	
Local statistics	
National statistics	
Other	Quarterly reports from current provider

7. Evidence gaps

Do you need additional information in order to complete the information in the previous questions?

It is uncertain to what extent each contact represents different members of staff or if there have been multiple contacts by one or more individuals.

This is a confidential service with information regards the success of the service being limited to the providers internal evaluation process. Information is anonymous and cannot be linked to specific individuals. The quarterly reports have indicated that of those using the service 86% (year to date) have felt significantly better following support.

Please note the small sample size which limits statistical information.

8. Mitigating action

Can the impact of the proposed policy/activity be mitigated?

Staff members can be signposted to local and national providers

Please explain
Where this service is removed employees can be signposted to alternative providers however it is acknowledged that this support maybe subject to longer referral times.

9. Justification

If nothing can be done to reduce the negative impact(s) but the proposed policy/activity must go ahead, what justification is there to continue with the change?

n/a

Have you considered alternatives?

SECTION 3 CONCLUDING THE EIA

Concluding the EIA

1. No negative impacts on any of the protected groups were found.	
2. Some negative impacts have been identified. The impacts relate to:	
Reducing discrimination, harassment, victimisation or other conduct prohibited under the Equality Act 2010	
Promoting equality of opportunity	
Fostering good relations	
3. Negative impacts can be mitigated for the proposals as outlined in question 8	√
4. The negative impacts cannot be fully mitigated but are justified as outlined in question 9.	
5. It is advised not to go ahead with the proposals.	

Decision
Set out the rationale for deciding whether or not to proceed with the proposed actions:

The council is facing significant financial challenges, with significant savings to be made in order to develop a sustainable council. The proposal will allow for a reduction of £15,000 pa which is currently being funded as a temporary measure.

During a particularly challenging period, the removal of this service may have a negative impact on employee engagement and morale so this needs to be taken into consideration when making this decision however there is an alternative signposting option to mitigate.

Date of Decision: 13/02/2023

Sign off and authorisation:

Service	Education, Communities & Organisational Development
Department	HR, ICT & OD
Policy/activity subject to EIA	
We have completed the equality impact assessment for this policy/activity.	Name: Anne Smith Position: Senior OD Adviser Date: 16/02/2023
Authorisation by head of service or director.	Name: Frances Garrow Position: Head of HR, ICT & OD Date: 16/02/2023
Please return this form to the Equal Opportunities Officer, Chief Executive's Office.	

Item 5.

REPORT TO: **SPECIAL MEETING OF MORAY COUNCIL ON 1 MARCH 2023**

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 2023/24 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:

(i) Approves the Treasury Management Strategy Statement for 2023/24;

(ii) Approves the Investment Strategy for 2023/24 in APPENDIX 1;

(iii) Approves the Prudential Indicators and Limits for 2023/24 in APPENDIX 3; and

(iv) notes the indicative Prudential Indicators and limits for 2024/25 and 2025/26.

3. BACKGROUND

3.1 The Local Government (Scotland) Act 2003 (the Act) and supporting regulations require the Council to adhere to the CIPFA Treasury Management Code of Practice.

3.2 The Act and subsequent Local Government Investments (Scotland) Regulations 2010 require the Council to set out its Treasury Strategy for borrowing and to prepare an annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.3 The Act also requires the Council to adhere to the CIPFA Prudential Code and to set prudential and treasury indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The prudential system, underpinned by legislation and regulation provides a self-regulatory framework.

4. TREASURY MANAGEMENT STRATEGY 2023/24

Current Treasury Position

4.1 The Council's borrowing and investments at 9 February 2023 are set out in the table below:

		Actual	Rate
		£000	%
Fixed Rate Debt	PWLB	**129,846**	**4.91**
	LOBO	**10,100**	**3.95**
	Market	**23,300**	**5.00**
Variable Rate Debt	PWLB	**-**	**-**
	LOBO	**-**	**-**
Temporary Borrowing – Local Authorities		**58,500**	**1.39**
Total External Borrowing		**221,746**	**3.95**
Other Liabilities		**51,331**	**n/a**
Total Gross External Debt		**273,077**	**n/a**
Investments **Short Term Investments**		**14,290**	**3.91**
Net Debt		**258,787**	**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) increased the Bank Rate to 4.00% in February 2023 with a further rise expected in March 2023. The authority's treasury adviser Arlingclose is forecasting that the Bank Rate will remain at this level for the duration of 2023 before starting to reduce in quarter four of 2023/24, however they note that the Bank of England will be reluctant to reduce rates until inflation and wage growth eases.

4.4 Arlingclose note that gilt yields (the interest rates paid on UK Government Bonds) remain volatile. While there are growing fears of a global decline in economic activity and an expectation of falling interest rates, these downward effects will be partly offset by off-set by hawkish central bankers and high government borrowing.

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 is able to 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 2023/24 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. 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 six 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 2022 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 2023/24.

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 2023/24

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 rising inflation and relatively low 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.

6.5 Despite the current upward pressure on interest rates, the Council does not envisage difficulties for the immediate future after taking into account current commitments and existing 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 2023/24 are based on the General Services Capital Plan and Housing Revenue Account Investment Plan presented in separate reports for consideration at this meeting.

6.10 Prudential Indicators are for 2023/24 only as the capital plan for General Services is proposed for one year only, namely 2023/24. However, indicative figures for 2024/25 and 2025/26 are included based on the indicative 10 year capital plan included in the budget report to this meeting of Council.

6.11 Actual outturn figures for 2021/22 have previously been reported to Moray Council on 28 September 2022 (paragraph 13 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 2022/23 based on the latest estimated outturn for 2022/23 and shows that the Council remains within previously approved limits for borrowing.

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. **<u>CONCLUSION</u>**

8.1 The adoption of the Treasury Management Strategy Statement will ensure that the Council adopts 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 2023/24 only, as the proposed Capital Plan is for this year only. Indicative figures for 2024/25 and 2025/26 are identified.

Authors of Report: Laurie Milne, Senior Accountant
Background Papers:
Ref: SPMAN-1293228629-835

THE ANNUAL INVESTMENT STRATEGY 2023/24

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 2022 and the maximum value of investments that the Council will hold.

	Actual Value at 31 March 2022 £m	**Max Value of Investments £m**
Investment Property * - Council	£0.222m	£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	£2.294m	£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	£0.080m	£1.0m
Share/ Unit Trust Holdings – Trust Funds	£3.079m	£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 **APPENDIX 2**

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+
UK Building Societies			Item 5.	
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	AAAmf/Aaa-mf/AAAm
Federated Sterling Prime Fund		5	Call	AAAmf/Aaa-mf/AAAm
Blackrock Institutional Sterling Liquidity Fund		5	Call	AAAmf/Aaa-mf/AAAm
Insight Sterling Liquidity Fund		5	Call	AAAmf/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+

APPENDIX 3

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 2023/24 based on the proposed capital plan, with indicative figures for 2024/25 and 2025/26 based on the indicative 10 year capital plan.

For comparison purposes, the actual spend for 2021/22 is presented together with estimates for 2022/23 based on the latest figures at 31 December 2022.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Budget £000	2024/25 Budget £000	2025/26 Budget £000
Capital Expenditure					
General Services	31,018	36,468	61,566	56,816	45,907
HRA *	11,769	17,748	19,671	43,986	31,074
Total Capital Expenditure	42,787	54,216	81,237	100,802	76,981
Financed by:					
Capital Receipts	-	1,017	156	156	156
Capital Grants	15,764	20,488	25,631	35,157	21,129
Revenue	5,522	4,064	1,502	2,718	2,513
Total Funding	21,286	25,569	27,289	38,031	23,798
Net financing need for the year	21,501	28,647	53,948	62,771	53,183

In General Services, the 2022/23 estimated capital expenditure includes a number of major projects. The most significant items are; £7.8m for the Council's share of the cost of the construction of the NESS Energy for Waste (EfW) facility in Aberdeen and £4.3m on Roads capital projects. In 2023/24 the Council has budgeted to spend £6.4m in the Learning Estate, including Early Learning & Childcare settings and £4.8m on Road Improvements. The other most significant project is the Moray Growth Deal and there is currently £26.7m in the capital plan for projects under this heading.

The increase on the HRA from 2022/23 to 2023/24 relates principally to the phasing of the new build housing programme, along with an increase in investment in existing Housing Stock.

Capital grant and other contributions show an increase of £4.7m from 2022/23 estimated amounts to the 2023/24 budget, explained mainly by an increase in grants to fund HRA new builds and government grant funding for Moray Growth Deal.

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).

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital Financing Requirement (CFR)					
General Services	280,730	292,817	326,078	356,738	373,554
HRA	71,250	76,493	85,539	104,343	125,560
Total CFR	**351,980**	**369,310**	**411,617**	**461,081**	**499,114**
Movement in CFR	**10,090**	**17,330**	**42,307**	**49,464**	**38,033**
Net financing Need (Indicator 1)	21,501	28,647	53,948	62,771	53,183
Scheduled debt amortisation	(11,411)	(11,317)	(11,641)	(13,307)	(15,150)
Movement in CFR	**10,090**	**17,330**	**42,307**	**49,464**	**38,033**

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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Services	8.27%	8.09%	8.54%	9.91%	10.40%
HRA	20.72%	22.46%	23.30%	25.69%	29.13%

The percentages in General Services from 2021/22 to 2025/26 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 2021/22 to 2025/26 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.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Council Tax - Band D	£3.14	£16.68	£36.60	£100.79	£45.70
Average Weekly Housing Rents	£0.11	£1.41	£1.29	£2.26	£3.56

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 increase in calculated amount on Council Tax in 2021/22 is lower because the capital plan was still experiencing issues in the supply chain as a result of the pandemic, Brexit and the war in Ukraine. The projections for 2022/23 assume an element of catching up on planned spend. Included in 2023/24 are high cost projects of Investment in the School Estate and the Moray Growth Deal.

In the HRA, the increase in incremental impact on housing rents from 2022/23 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.

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.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Borrowing	236,757	257,308	300,937	351,911	391,483
Other Liabilities	56,009	52,788	51,466	49,956	48,417
Gross Debt	292,766	310,096	352,403	401,867	439,900
CFR	351,980	369,310	411,617	461,081	499,114
Under Limit By	59,214	59,214	59,214	59,214	59,214

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.

	2021/22 Actual Maximum £000	2022/23 Estimate Maximum £000	2023/24 Estimate Maximum £000	2024/25 Estimate Maximum £000	2025/26 Estimate Maximum £000
Borrowing	236,757	282,733	363,864	421,872	470,292
Other Liabilities	54,365	54,788	52,466	51,956	50,417
Total External Debt	291,122	337,521	417,330	473,828	520,709

The authorised limits shown above are based on the proposed capital investment plan for 2021/22 to 2024/25 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	2021/22 Actual Maximum £000	2022/23 Estimate Maximum £000	2023/24 Estimate Maximum £000	2024/25 Estimate Maximum £000	2025/26 Estimate Maximum £000
Borrowing	236,757	277,733	348,864	406,872	455,292
Other Liabilities	54,365	53,788	52,466	50,956	49,417
Total External Debt	291,122	331,521	401,330	457,828	504,709

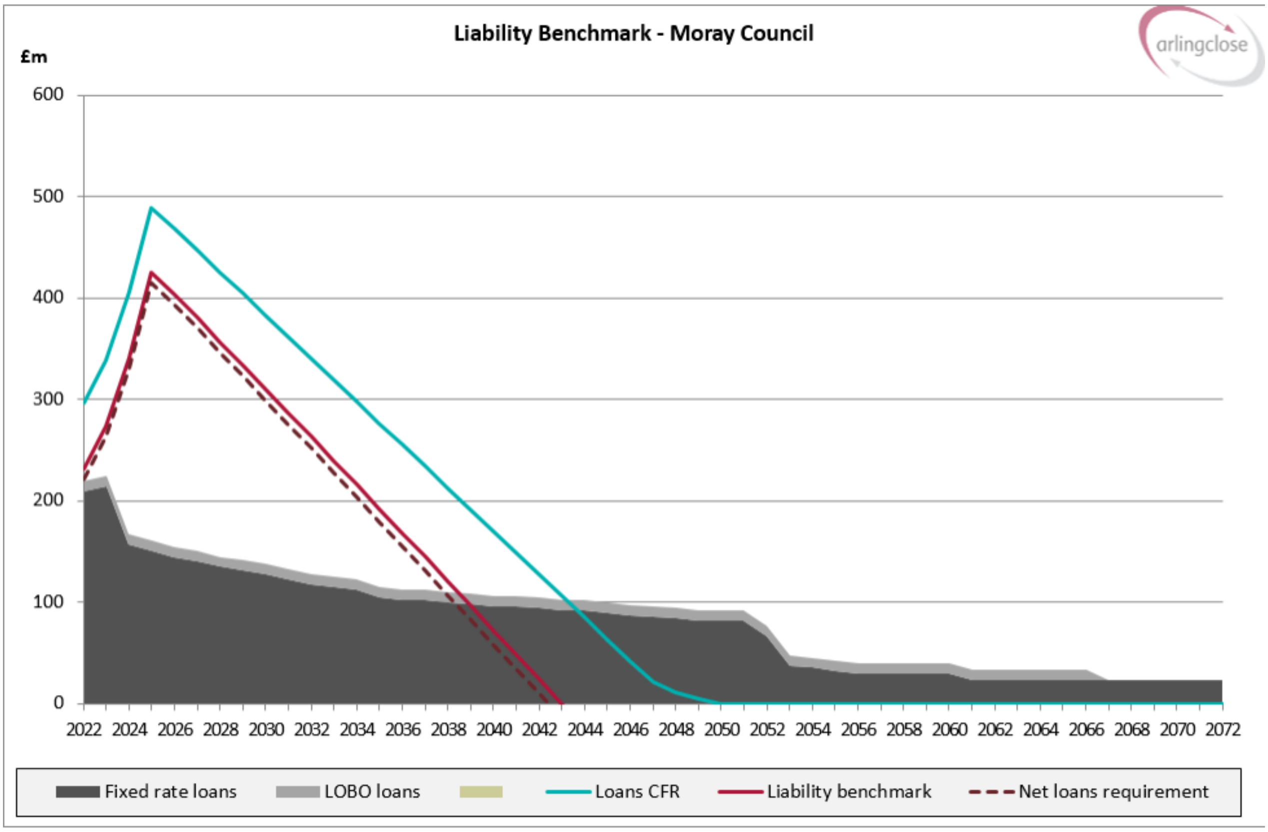
8. Liability Benchmark

The liability benchmark is 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.

	2021/22 Actual	2022/23 Estimate	2023/24	2024/25 & 2025/26
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.

	2021/22 Actual	2022/23		2023/24		2024/25 & 2025/26	
		Lower	Upper	Lower	Upper	Lower	Upper
< 12 months	32.10%	0%	37%	0%	37%	0%	37%
12 – 24 months	3.29%	0%	20%	0%	20%	0%	20%
2 – 5 years	11.78%	0%	25%	0%	25%	0%	25%
5 – 10 years	9.49%	0%	50%	0%	50%	0%	50%
>10 years	43.34%	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.

	2021/22 Actual	2022/23	2023/24	2024/25 & 2025/26
Principal Sums Invested > 364 days	£0M	£0M	£0M	£0M

INTEREST RATE FORECAST

	Mar 23 %	Jun 23 %	Sep 23 %	Dec 23 %	Mar 24 %	Jun 24 %	Sep 24 %	Dec 24 %	Mar 25 %	Jun 25 %	Sep 25 %	Dec 25 %
Bank Rate	**4.25**	**4.25**	**4.25**	**4.25**	**4.00**	**3.75**	**3.50**	**3.25**	**3.00**	**3.00**	**3.00**	**3.00**
3-mth Money Market	**4.40**	**4.40**	**4.40**	**4.35**	**4.15**	**4.10**	**4.00**	**3.75**	**3.50**	**3.40**	**3.40**	**3.40**
5-yr Gilt Yield	**3.20**	**3.20**	**3.20**	**3.20**	**3.10**	**3.10**	**3.10**	**3.00**	**3.00**	**3.00**	**3.00**	**3.10**
10-yr Gilt Yield	**3.30**	**3.30**	**3.30**	**3.30**	**3.20**	**3.20**	**3.20**	**3.20**	**3.20**	**3.20**	**3.20**	**3.20**
20-yr Gilt Yield	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**
50-yr Gilt Yield	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**

The forecast is based on the following underlying assumptions:

- The Bank of England’s Monetary Policy Committee (MPC) increased interest rates to 4.00% in February 2023. Arlingclose, the Council’s Treasury Management advisors, are forecasting that there will be a further rise in March 2023 and that rates will stay at this level until the last quarter of 2023/24, when it will start to decrease, and they forecast that it will still be at a level of 3% by December 2025.
- Headline inflation will continue to fall as pressures from energy and other external costs ease. Potentially more persistent domestic inflationary pressures are likely to remain strong over the next few quarters and it is uncertain if and when these will abate.
- While the MPC remains concerned that domestic inflationary pressures will remain elevated, the CPI rate is projected to fall below the target in the medium term as monetary tightening takes its toll on the economy.
- The lagged effect of the sharp tightening of monetary policy, higher mortgage rates, widespread strike action, alongside high inflation, will continue to put pressure on household income.
- Workforce shortage in the labour market in contributing to low unemployment (albeit with higher inactivity) and higher wages. While real wage growth is negative high nominal wage growth has increased company costs and allowed them to pass these through to consumers, particularly in the services sector. The labour market is expected to remain week as demand for labour ebbs, and the Bank Rate will remain high until both services inflation and nominal wage growth declines.
- Global bond yields remain volatile as investors price in slower growth and easier monetary policy, amid continuing resilience in headline economic data (particularly in the US labour market) and Central Bank push back on expectations for rate cuts in 2023. The Federal Reserve wants to see persistently higher policy rates and the European Central Bank remains in forceful tightening mode.

- Gilt yields will be supported by both significant new bond supply quantitative tightening and hawkish central banks offsetting the downward effects of declining inflation and growth.

APPENDIX 5

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

REPORT TO: **SPECIAL MEETING OF MORAY COUNCIL ON 1 MARCH 2023**

SUBJECT: **HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSAL 2023/24**

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 2023/24 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 material changes since the Housing Business Plan 2022 Review and the forthcoming rent restructure, as detailed in sections 3 and 4;

(ii) agrees the proposed HRA Budget for 2023/24 (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;

(iii) considers and notes the results of consultation with tenants on options for the 2023/24 rent increase as detailed in section 6;

(iv) agrees Council house rents increase of 3.5% for 2023/24;

(v) agrees that garage site rents are increased by 8.5% (this is a two yearly increase);

(vi) agrees that grass cutting charges are increased by 3.5%;

(vii) agrees provision of £150k for service developments, as detailed in paragraph 8.18; and

(viii) notes the three year projection to 2025-26 (APPENDIX III).

3. MATERIAL CHANGES SINCE HOUSING BUSINESS PLAN REVIEW 2022

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 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 year, notably the significant increases in inflation and interest rates, a limited interim review has been undertaken to ensure the impact of these material changes are adequately considered when setting the budget and planning for future years.

3.5 The limited review was predicated on rents increasing at 3.5% for 2023/24 and 2024/25 and thereafter CPI (2%) + 1% for the remainder of the 30 plan. Any variation to this, including the scope of the forthcoming rent restructure, will require to be considered in future investment or strategic decision making.

3.6 The baseline assumption includes 7% inflation for 23/24, 3.5% for 24/25 then 2% for remaining years, in line with long-term fiscal targets. The investment programme has been uprated by 3% for the years from 23/24 to 25/26, then 2.25% from 26/27 onwards.

3.7 Interest rates are assumed to be 4.03% for 23/24, increasing slightly to 4.27% in 24/25 and then reducing to 4% from 25/26 onwards. This is significantly higher than the assumptions in the previous business plan, therefore has impacted the debt to income ratio.

3.8 Debt affordability starts at 19.5% in year 1 of the plan and peaks at 35.2% in year 7, taking account of the investment needs identified in the stock condition survey. This is above the 35% prudential indicator which the Council uses as a reference point and arises three years earlier than the year 10 projection in the previous business plan review. This is not unexpected due to the lower rental increases following the impact of the pandemic and cost of living context and rising inflation and interest rates. Accordingly considerations to manage this would be to increase the limit, taking account of the risk profile of doing so, implementing a higher rent increase in the early years of the plan or to find efficiencies within the investment programme.

3.9 Whilst the business plan remains affordable and sustainable based on this limited review, the Council will work with the consultant on several other scenarios and thereafter monitor the variables which underpin these to ensure the impact continues to be managed operationally and informs future strategic decisions.

3.10 The refreshed business plan maintains provision for approximately 50 new build units or acquisitions for the next five years, predicated upon 276 new build units and 30 acquisitions. The subsequent period will be re-profiled once the Housing Need and Demand Assessment (HNDA) has been completed to determine the extent of unmet housing need in subsequent years.

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 In May 2022, Arneil Johnston were commissioned to complete a further review of the rent structure to support the development of a consistent, fair and transparent model for setting rent and service charges which ensures rents are affordable for tenants, can support investment, and provide financial security for the HRA Business Plan.

4.3 Arneil Johnston have provided a revised rental model which is being considered by Officers, but early indications are that this would enable an 8% increase in annual rental income to offset the impact of below inflation increases in recent years. Any resulting revised draft Rent Setting Policy would be presented to the Housing and Community Safety Committee for approval, and would also require to undergo consultation with tenants and other stakeholders, before implementation. It is anticipated that this consultation will take place during Autumn 2023 and that a revised Rent Setting Policy will be implemented for 2024/25. Similar to the 2006 Policy, the implementation of any revised Policy will include transitional arrangements, potentially for 3-5 years, to assist the minority of tenants whose rents may change significantly.

5. HOUSING INVESTMENT PLAN

5.1 The proposed Housing Investment Plan for 2023/24 – 2025/26 is detailed in **APPENDIX II**.

5.2 The Housing Investment Plan reflects the investment priorities which tenants identified within the 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 revised 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 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 over 90% of the Council's stock met the SHQS as it stood in 2020/21, in 2021/22 the standard was enhanced to incorporate the energy efficiency provisions of EESSH and in 2022/23 further enhanced 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.

5.6 From February 2022 the standards for smoke alarms changed to require a minimum number of devices, which should be ceiling mounted and interlinked. A significant installation programme progressed throughout 2022 which resulted in over 99% of properties now meeting the standard and the Council is working to complete installation in the remaining few properties, which have complexities in terms of access. A programme of forced access has been implemented as a last resort and these provisions are being applied to ensure 100% compliance. This investment is a significant contributor to meeting the higher expectations of SHQS and the investment programme includes provision to maintain this position.

5.7 From April 2022 a technical amendment to the SHQS provisions in relation to electrical certification was made, which entailed specifying a full Electrical Installation Condition Report (EICR) as the requirement. Whereas the Council's properties had been certified to a high level under the industry standards, similar to other domestic properties and therefore providing a high degree of assurance in safety terms, a remedial programme of EICR certification is required to ensure compliance with the higher provisions of SHQS. Work has commenced on properties which the Council has been carrying out other electrical work within, including those which required forced entry for smoke alarms. A large contract is being tendered to complete the remainder of properties within the year 2023/24, for which budgetary provision of £1,800k has been allocated. This will contribute greatly to attainment against SHQS.

5.8 Energy Efficiency is the other key priority within the Investment Plan, continuing progress following a year in which over 10% of properties have benefitted from installation of a new heating system. Total provision of £7,435k has been allocated to take forward Insulation, Heating and other

EESSH programmes, which will have a particular focus on improving the energy efficiency of the properties with the lowest energy rating. It is intended that this will eliminate the small number of remaining properties which have an Energy Performance Certificate (EPC) rating F or G.

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 consultation for 2023/24 ran from 12 December 2022 until 13 January 2023, with surveys issued to 6110 tenants by letter or email according to their communication preference.

6.3 Our proposed rent increase under the HRA Business Plan would normally be above the rate of inflation, based on the Consumer Price Index (CPI) + 1%. Given the current economic situation, this would have meant an increase of 11.1% to council house rents (an average weekly increase of £7.22). Due to the ongoing cost of living crisis the options proposed to our tenants for the 2023/24 rent increase remained below half the current level of inflation.

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 – 3.5% (or average weekly increase of £2.28)
This option would give enough funding to maintain the current level of service. However, it would mean we would have to propose higher rent increases in future years to deliver the level of investment needed in our properties.

Option two – increase rents by 5% (or average weekly increase of £3.25)
This option would let us maintain our investment programme as well as being able to set aside a hardship fund of £75k to help tenants who are struggling with the cost of living.

6.5 A total of 770 responses were received, representing a 12.6% response rate, which is a considerable increase in response compared to 9.7% last year:
577 tenants (80.14%) opted for Option one – 3.5%
143 tenants (19.86%) opted for Option two – 5%

6.6 Given the clear preference for option one, this is the recommended rent increase for 2023/24. However, it is noted that for the second consecutive year the option preferred by tenants has been described within the consultation as being below the rate of inflation and business plan assumption, therefore a higher rent increase will be needed in future years to provide improvements and upgrades. This recommendation proceeds with the qualification that the proposed rent restructure detailed in section 4 of the report will include an objective to harmonise rents at a level which is sustainable within the wider HRA Business Plan assumptions.

6.7 Based on this rent increase, 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.

7. PROJECTED HRA OUTTURN 2022/23

7.1 On 22 February 2022, the Council agreed its HRA Budget for 2022/23 (paragraph 5 of the Minute refers). Reports on budgetary performance have been presented to Housing and Community Safety Committee throughout 2022/23. Expenditure has been impacted by uncertain market conditions.

7.2 The most recent HRA budget monitoring report presented to the Housing and Community Safety Committee on 15 November 2022 (paragraph 7 of the minute refers) identified the main variations in the projected outturns to 31 March 2023, which have subsequently been updated with the most recent position as follows:-

Expenditure
Supervision and Management

7.3 Supervision and Management - An overspend of £83k is projected. This variance results from projected increases in staffing costs (£94k) following the higher than budgeted pay award, increased void costs (£34k), increased Council Tax costs (£10k), which are anticipated to be partly offset by an underspend in software (£55k).

Sheltered Housing

7.4 There is a projected overspend of £42k anticipated due to excess energy costs due to higher unit costs (£27k), responsibility for rates for a former day service property (£6k), repairs and maintenance (£8k) and other minor cumulative overspends (£1k).

Repairs and Maintenance

7.5 An overspend of £490k is projected. This is composed of an overspend of £390k in planned/cyclical maintenance, £123k in response repairs and voids (£57k). The key contributors were the additional expenditure on Electrical Testing and Certification and other inflationary pressures.

Financing Costs

7.6 An overspend of £662k is projected due to estimated higher interest costs on borrowing. It is acknowledged that there is considerable volatility in relation to interest rates at present, therefore this position is likely to vary prior to the year end.

Bad and Doubtful Debts

7.7 An underspend of £15k is projected due to lower write-offs, however the position remains uncertain following the impact of the pandemic on arrears, the cost of living outlook and the recent restrictions placed on evictions.

CFCR

7.8 The level of Capital from Current Revenue (CFCR) is projected to be £839k higher due to underspends elsewhere across the HRA budget, which will offset anticipated borrowing.

Downsizing Incentive Scheme

7.9 An underspend of £37k is projected due to fewer transfers taking place.

Service Developments

7.10 An underspend of £336k is currently projected due to the lead-in time from approval of new posts to recruitment processes concluding.

7.11 Total expenditure on the HRA is projected to be £50k higher than budgeted.

Income

7.12 Total income to the HRA is projected to be £50k higher than originally budgeted for 2022/23, with £118k additional interest on revenue balances projected due to the higher interest rates, partially offset by £52k lower rental income due to the delayed completion of new build properties in Keith and £16k lower yield in other income.

HRA reserves

7.13 Overall, a surplus balance of £2.465m is projected for the HRA budget in 2022/23. 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;
- £750k - risks associated with the development programme in current market conditions
- £750k – risks associated with the housing investment programme in current market conditions
- £465k – provision for inflation, given the unexpectedly high level of pay award and other cost increases in 2022/23.

8. PROPOSED HRA BUDGET 2023/24

8.1 As in previous years, Officers have considered in detail the base budget agreed for 2023/24. 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 2023/24. Comments on the proposed budget can be made as follows:-

Expenditure

8.3 The total expenditure proposed amounts to £22.812m. The main areas of expenditure are considered below.

Supervision and Management

8.4 The budget proposed for supervision and management costs is £5.521m. This provides for a 3% pay award and also makes allowance for increased voids costs.

8.5 HRA statistics recently published by the Scottish Government, highlight that Moray continues to be in the lowest quartile of Councils with regards to supervision and management costs per house.

Sheltered Housing

8.6 The Sheltered Housing Budget is increased to £0.063m for 2023/24.

Repairs and Maintenance

8.7 Proposed revenue expenditure for Repairs and Maintenance of £10.696m represents a £2.74m increase on 2022/23, reflecting the significantly higher labour and material costs in this service area. Capital expenditure for Planned Maintenance and Improvements of £14.3m 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.

Garage Sites

8.8 Charges in relation to garage sites provided by the HRA are reviewed bi-annually. Given the current rate of inflation, it is intended that these charges are subject to a total uplift of 8.5%, reflecting annual uprating of 3.5% and 5% respectively.

Grass Cutting

8.9 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 3.5%.

New Build Housing Programme

8.10 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.

8.11 Following wide consultation with partners and tenants, 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 Needs and Demand Assessment (HNDA) completed in 2019 indicated that 424 new affordable houses are required per annum over a 10 year period to address current and projected housing need in Moray. Work on a refreshed HNDA is underway and will report later in 2023.

8.12 Expenditure of £7.993m is budgeted for in relation to the new build programme for 2023/24, with £30.781m and £17.534m allocated for 2024/25 and 2025/26 respectively, representing the anticipated schedule of forthcoming developments.

8.13 On 15 November 2022, the Housing and Community Safety Committee approved the Council's 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 276 units included in the business plan between 2022/23 and 2026/27. 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.

8.14 Open market acquisition of properties will be considered under the provisions of the Strategic Housing Investment Plan (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 6 units in 23/24 and 12 in each of 24/25 and 25/26 has been made within the business plan.

Financing Costs

8.15 Financing costs are projected at £5.183m for 2023/24. This is an increase of £1.087m when compared to the previous year's budget, by consequence of the increased cost of borrowing.

Capital from Current Revenue (CFCR)

8.16 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 2023/24. These will be financed through the HRA revenue and capital budgets. For 2023/24, it is proposed to set CFCR at £0.902m to allow the Council to maintain an operating surplus of £2.465m at year end.

Downsizing Incentive Scheme

8.17 It is proposed to maintain the annual budget for the Downsizing Incentive Scheme at £72k for 2023/24.

Service Developments

8.18 Service developments of up to £150k have been included in the budget for 2023/24 to make provision for emergent priorities, including work on process efficiency in repairs and maintenance carried forward from 2022/23, facilitating the rent restructure, ensuring sufficiency of staffing provision across the service and to support participatory budgeting initiatives which benefit tenants. Specific details will be reported to service committees in the course of the reporting year.

Income

8.19 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. GENERAL SERVICES HOUSING

Temporary Accommodation

9.1 The Council has a statutory responsibility to provide temporary accommodation to households assessed as homeless until permanently rehoused, or duties have otherwise been discharged. Income and expenditure in relation to this is derived from the general services account, rather than the HRA.

9.2 Temporary accommodation consists of self-contained accommodation dispersed within communities or complexes of properties with dedicated support staff. In exceptional circumstances the Council will also make short-term placements in B&B establishments until more suitable accommodation becomes available.

Charging Policy

9.3 The current charging policy has been in place since April 2015, having been approved by Communities Committee on 18 November 2014 (para 8 refers). No annual uplift has been applied in the interim, therefore with increased costs and static income, the service has increasingly been running at a deficit.

9.4 Charges had been structured in anticipation of the means tested assistance available to tenants moving from the Housing Benefit regime to the new Universal Credit system. Whilst this was prudent given the stated intention of the DWP to effect this change, subsequently temporary accommodation was exempted from the migration to Universal Credit and accordingly the framework of rules and limits is less restrictive.

Current Charges

9.5 Charges within the current policy had been derived with reference to the Local Housing Allowance (LHA) rates, which would have determined the limit under the Universal Credit system. The current weekly charges for respective property sizes are:

	Rent	Restricted rent
1 Bed	£142.81	£65.70
2 Bed	£171.58	£77.14
3 bed	£191.14	£89.46

9.6 The ‘restricted’ rental charge is levied where tenants are not eligible for means tested assistance in order to ensure affordability.

Budgetary Considerations

9.7 The cost of providing temporary accommodation has increased markedly since the charging policy was implemented, with LHA rates having largely remained static. This includes uplifts in salary costs for employees, higher rental charges and other ancillary costs such as furnishings, other materials, utilities, etc.

9.8 The net budgetary pressure arising from the increased costs versus static income is approximately £220k, which will inevitably grow if the status quo remains. Whilst there is some scope for cost control, in order to mitigate the budgetary deficit it will be necessary to review the extent to which costs are recovered by rent and service charges.

9.9 A comprehensive review of the Charging Policy for Temporary Homeless Accommodation will require lead-in time of 3-6 months, given the requirement for consultation with stakeholders. Whilst this presents scope for in-year savings, realistically this would be with effect from the latter half of the financial year. Accordingly, consideration of an interim measure is also proposed.

Interim Uplift

9.10 The compounded inflationary rate for the period April 2015 to April 2023 is approximately 27%, based on CPI. As an initial means of uprating the rent and service charges under the current policy, using this factor would yield up to £230k additional income (annual equivalent for 2023/24). Several considerations:

- Implementation for new tenants can begin immediately;
- Notice of the uplift for existing tenants would be provided with effect from 3rd April 2023;
- Generous mitigation will be afforded to any existing tenants advising of adverse impact, with limited impact on the overall budgetary impact given turnover rate (tenancies <6months); and
- Tenancies for which loss of subsidy (remuneration from the DWP) would arise will not be included in the uplift.

As these savings would fall to General Services, this has been recommended in 2023/24 Budget and 2023 to 2026 Financial Plan Report submitted to this Committee.

Comprehensive Policy Review

9.11 A full policy review will commence immediately, with reference made to full cost recovery for each type of accommodation. Opportunities for cost control will be identified as part of this process and proposed new rent/service charges for each property will be devised. An important principle would be to protect existing tenants from being impacted by two changes in the course of the financial year, albeit the average tenancy duration means this is unlikely to arise in many instances.

10. 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 remain under periodic review given the extent of investment activity and changing market conditions and whereas the recommended rent increase falls below the original business plan assumption, the limited review undertaken has taken cognisance of this per paragraph 3.5 and the proposed remedy is set out in terms of the rent restructure detailed in paragraph 6.6.

(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 has been subject to early review and will continue to be periodically reviewed and appropriate contingent measures taken.

The proposed changes to service charges for temporary accommodation follow discussion with the benefits team to evidence that the charges are eligible within the scheme rules. There are also circumstances where eligible costs may not be fully recoverable from the DWP under the subsidy regime and the service will ensure this is considered to avoid inadvertent impact on the benefits budget.

(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 Head of Financial Services, the Head of Governance, Strategy and Performance, Tracey Sutherland, Committee Services Officer and Senior Managers within the Housing and Property Service and any comments received are reflected in this report.

11. CONCLUSION

11.1 This report presents the HRA Budget proposals for 2023/24. It also includes a three year financial projection to 2025/26. Following consultation a rent of 3.5% is recommended for 2023/24 and the forthcoming rent restructure will take cognisance of the refresh of the HRA business plan.

Author of Report:	Edward Thomas, Head of Housing and Property
Background Papers:	Held by author
Ref:	SPMAN-1285234812-1243

Housing Revenue Account **APPENDIX I**

HRA Budget 2023-24 - Based on 3.5% rent increase

Service Description	Annual Budget 2022-23	Projected Outturn to 31 March 2023	Projected Variance to 31 March 2023	Draft Budget 2023-24	Variation between 2022-23 & 2023-24
Expenditure	**£,000**	**£,000**	**£'000**	**£'000**	**£'000**
Supervision & Management	**4,533**	4,616	(83)	**5,521**	988
Sheltered Housing	**25**	67	(42)	**63**	38
Repairs and Maintenance	**7,956**	8,446	(490)	**10,696**	2,740
Financing Costs	**4,096**	4,758	(662)	**5,183**	1,087
Bad & Doubtful Debts	**225**	210	15	**225**	0
CFCR	**4,303**	3,464	839	**902**	(3,401)
Downsizing Incentive Scheme	**72**	35	37	**72**	0
Service Development	**456**	120	336	**150**	(306)
Total Gross Expenditure	**21,666**	21,716	(50)	**22,812**	1,146
Income	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Non-dwelling rents	**242**	242	0	**244**	2
House rents	**21,335**	21,283	(52)	**22,362**	1,027
IORB	**2**	120	118	**120**	118
Other income	**87**	71	(16)	**86**	(1)
Total Income	**21,666**	21,716	50	**22,812**	1,146
Surplus / (Deficit)	**0**	0	0	**0**	
Balance carried forward		2,465		**2,465**	
Estimated Balance at end of Period	0	2,465		**2,465**	

1. The Investment proposals for 2023/24 to 2025/26 can be summarised as shown below:-

Investment Heading	Programme	2023/24 £,000	2024/25 £,000	2025/26 £,000
Response Repairs	Response Repairs	2,534	2,610	2,688
	Heating Repairs	618	636	656
	Total Response	**£3,152**	**£3,246**	**£3,344**
Void Repairs	**Void House Repairs**	**£1,469**	**£1,513**	**£1,559**
Estate Works	Garage Upgrades	26	27	27
	Asbestos	371	372	383
	Estates/Forum	230	200	206
	Landscaping	87	90	93
	Total Estate Works	**£714**	**£689**	**£709**
Cyclical Maintenance	Gas Servicing	371	382	393
	Solid Fuel Servicing	5	5	5
	ASHP Servicing	61	63	65
	Smoke Alarm Servicing	15	15	16
	External decoration & fabric repairs	678	698	719
	General Servicing	51	53	54
	Fire Risk Assessments & associated works	154	159	164
	Total Cyclic Works	**£1,335**	**£1,375**	**£1,416**
Planned Maintenance	Roof & Fabric Repairs	1,150	1,184	1,220
	Rainwater Goods - Gutter clearance/repairs	257	265	273
	Rainwater Goods - Roof Moss cleaning	206	212	218
	Cap - Insulation	2,813	3,103	3,196
	Plumbing Upgrades	52	53	55
	Electrical Upgrades	1,800	400	412
	Safety & Security	21	22	22
	Shower Installations	52	53	55
	Sheltered Housing	10	11	11
	Decoration Vouchers	74	76	79
	Cap - Bathroom Replacements	360	371	382
	Cap - Kitchen Replacements	1,030	1,061	1,093
	Cap - Central Heating	1,622	1,671	1,720
	Cap - EESSH	3,000	3,090	3,183
	Cap - Doors	103	106	109
	Cap - Windows	1,750	1,803	1,857
	Total Planned	**£14,300**	**£13,481**	**£13,885**
Other Investment	Disabled Adaptations	360	360	371
	Enabling	10	10	10
	Total Other	**£370**	**£370**	**£381**
Proposed Investment		**£21,340**	**£20,674**	**£21,294**

2. Capital expenditure proposed for 2023/24 to 2025/26 can be summarised as:–

Investment	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Doors and Windows	1,853	1,909	1,966
Central Heating	1,622	1,670	1,720
EESSH	3,000	3,090	3,183
Kitchen Replacements	1,030	1,061	1,093
Bathroom Replacements	360	371	382
Insulation	2,813	3,103	3,196
Council House New Build	7,993	30,782	17,534
Open Market acquisitions	1,000	2,000	2,000
Total Capital Investment	**19,671**	**43,986**	**31,074**

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

Projected income	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
CFCR	902	2,118	1,913
Prudential Borrowing	10,737	20,871	24,051
Scottish Government Grant	7,432	20,397	4,510
Council Tax Discount on 2nd homes	600	600	600
Total	**19,671**	**43,986**	**31,074**

Service Description	Annual Budget 2023-24	Annual Budget 2024-25	Annual Budget 2025-26
Expenditure	**£,000**	**£,000**	**£,000**
Supervision & Management	5,521	5,631	5,744
Sheltered Housing	63	64	65
Repairs and Maintenance	10,696	9,510	9,794
Financing Costs	5,183	5,931	7,127
Bad & Doubtful Debts	225	233	241
CFCR	902	2,118	1,913
Downsizing Incentive Scheme	72	72	72
Service Developments	150	100	100
Total Gross Expenditure	22,812	23,659	25,056
Income	**£,000**	**£,000**	**£,000**
Non-dwelling rents	244	266	268
House rents	22,362	23,187	24,582
IORB	120	120	120
Other income	86	86	86
Total Income	22,812	23,659	25,056
Surplus / (Deficit)	0	0	0
Balance carried forward	2,465	2,465	2,465
Estimated Balance at end of Period	2,465	2,465	2,465