REPORT TO: SPECIAL MORAY COUNCIL ON 3 MARCH 2020

SUBJECT: 2020/21 BUDGET AND 2020 to 2023 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 2020/21, to agree the Council's revenue and capital budgets for 2020/21 and to consider the Council's Financial Plan for 2020 to 2023.

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) (24) and (25) relating to the approval of the annual estimates of revenue and capital expenditure for all services.

2. RECOMMENDATION

2.1 It is recommended that (subject to the Scottish Budget being approved by Scottish Parliament) the Council approves :

(i) An increase of 4.84% on Council Tax for 2020/21;

(ii) Provision of £4,528,000 for budget pressures as listed in APPENDIX 2;

(iii) Further savings totalling £104,000 as listed in APPENDIX 3;

(iv) Indicative budgets for 2021/22 and 2022/23 as set out in APPENDIX 1;

(v) Capital expenditure for 2020/2021 as set out in the indicative ten year Capital Plan in APPENDIX 4;

(vi) Funding for Moray Integration Joint Board (MIJB) to increase by £1,792,000 in 2020/21 compared to 2019/20 per the settlement letter from Scottish Government; and

(vii) Use of general reserves of up to £3,828,000 to balance the budget, and flexibility to extend this to £5,004,000.

2.2 It is recommended that the Council notes:

(i) The conditions placed on the Council in terms of the settlement letter from the Minister for Public Finance and Digital Economy;

(ii) That the budget is based on the Local Government Settlement issued by the Scottish Government on 6 February 2020 and that the Council's budget will be amended to reflect any changes made by the Scottish Parliament when the Scottish budget is approved;

(iii) That the Chair of Moray Integration Joint Board has written to the Chief Executive formally notifying him that MIJB anticipates an overspend of £1.7 million in 2019/20, which falls to be part-funded by the Council;

(iv) Savings previously approved totalling £1,928,000 for 2020/21 and savings approved subject to consultation totalling £181,000 for 2020/21 as listed in APPENDIX 3; and

(v) One-off savings of £583,000 projected for 2020/21.

3. BACKGROUND

3.1 The Council's revenue and capital budgets for 2020/21 fall due to be considered in a continued period of reduced funding from central government at both a United Kingdom and Scottish level.

3.2 The Council receives around 80% of its revenue funding from Scottish Government. Over the last nine years, this grant funding has increased marginally in cash terms, and by considerably less than the cost of new duties required of local authorities. Inflation increases for pay and prices and growth in demand for services in some areas have therefore had to be balanced by efficiency savings and cuts in services. As previously reported, the Council has made savings totalling £53 million since 2010/11.

3.3 Although the proposed Scottish budget for 2020/21 was not announced until 6 February 2020, further cuts in local government funding were expected and the Council has been preparing for these. The most recent report on the financial planning process was considered by the Council on 12 February 2020. Milestones for the financial planning process for 2020/21 are set out in **APPENDIX 6.** The Local Government settlement is for one year only but the Council is setting its 2020/21 budget in the context of longer term planning. The Council's proposed Medium to Long Term Financial Strategy forms another item on the agenda of this Council meeting.

3.4 Indications are that funding for local government will remain tightly circumscribed in the medium term and the forecast use of reserves for 2021/22 is of particular note in the context of consideration of the 2020/21 budget, as the underlying overspend in 2020/21 will put pressure on the Council for 2021/22.

3.5 The Council had free general usable reserves of £12.3 million as at 31 March 2019. Projected use of these reserves in 2019/20 is set out in the table below.

General Reserves	**Committee Reference**	**Approved**
		£000s
General Reserves @ 1 April 2019		12,276
LESS		
To balance the 2019/20 Budget	MC 27/02/19	4,016
Investment in change	MC 27/02/19	1,172
Budget reduction from variance report	MC 27/06/19	(1,121)
		4,067
Funding from reserves approved in 2019/20:		
Business Support (Education and Social Care)	MC 08/05/19	32
Senior Social Workers	MC 08/05/19	87
Development of child poverty outcomes	MC 27/06/19	5
Moray Growth Deal	MC 27/06/19	5
Discretionary Housing Payments	MC 27/06/19	29
Community Planning	MC 27/06/19	25
Homelessness: temporary accommodation	MC 27/06/19	15
Syrian refugee Resettlement Programme	MC 27/06/19	39
Buckie regeneration	MC 27/11/19	3
		240
Approved use of reserves		4,307
Transfer to ear-marked reserve for transformation	P&R 03/09/19	2,000
Transfer to ear-marked reserve for transformation	MC 12/02/20	881
Estimated out-turn – variance not required from reserves	MC 12/02/20	(4,916)
Projected Free Balance @ 31 March 2020		10,004

3.6 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 31 October 2018 (paragraph 5 of the minute refers) is to hold £5 million as free reserves. This equates to around 2.5% of budgeted revenue expenditure on General Services.

3.7 The table above indicates that the Council has flexibility to use £5,004,000 general reserves to balance the budget without breaching its reserves policy.

3.8 Any movement in grant support from Scottish Government following the Scottish budget approval expected on 5 March 2020 or following any concomitant amendments after the UK budget is approved will decrease or increase the projected use of reserves.

4. REVENUE BUDGET

4.1 The draft revenue budget for 2020/21 to 2022/23 is set out in **APPENDIX 1** to this report.

4.2 The starting point for the 2020/21 budget is the budget allocated to departments and loans charges for 2019/20. The brought forward Devolved School Management balance is removed and budgets adjusted to reflect the reinstatement of temporary savings and the full year effects of budget adjustments made for part of 2019/20 only. The resultant starting point for the 2020/21 budget is expenditure of £202,355,000.

4.3 Provision for pay and prices
Provision of £4,400,000 is made within the budget for pay awards and some other inflationary increases in expenditure. No provision has been made for inflationary pressures for health and social care services delivered under direction from MIJB, as additional funding of £1,792,000 for health and social care services must be passed through from the Council to MIJB, under the terms of the settlement letter. Part of this funding is related to new duties under the Carer's Act. (The Council has received no additional funding for its new duties relating to young people who are carers). The bulk of the funding however comes with no strings attached or additional duties associated with it. Consequently it is proposed that no further increase in funding is made by the Council. The additional funding equates to an uplift of 4.24% for MIJB.

4.3.1 The pay award for 2020/21 was agreed as part of a three year pay agreement from 2018/19 to 2020/21. The 3% increase amounts to £3.6 million (excluding Health and Social care), which accounts for most of the provision for inflation.

4.3.2 Other inflationary increases included are for PPP/PFI contracts, the Grampian Valuation Joint Board requisition, fostering fees and allowances, school and other transport contracts, electricity and gas price increases and increase in landfill tax rates.

4.3.3 The increase in Non-Domestic Rate (NDR) poundage from 49p to 49.8p announced alongside the local government settlement has the effect of increasing NDR payable by the Council by £65,000. The Council will also benefit from the reduction in the Higher Property Rate from 2.6p to 1.3p for properties with Rateable Value between £51,000 and £95,000. The Council has 14 properties in that range and NDR payable will be reduced by £11,000. Provision for the net increase in NDR payable is included.

4.4 The Capital Plan is discussed in section 6 of this report. The full year effect of borrowing in 2019/20 and the estimated impact of planned capital expenditure in 2020/21 are included in the draft revenue budget. This results in a projected year-on-year increase of £1,700,000.

4.5 New burdens are created for local government by legislation passed by the Scottish Government. The General Revenue Grant funding notified in the draft settlement includes funding for Rapid Rehousing Transition Plans, counselling in schools and NDR reform – costs are borne by the Assessors service and recharged to the constituent authorities through the requisition for the Valuation

Joint Board. A later announcement of grant funding for Parental Employability Support Fund is expected and the provisionally announced sum is included in new burdens. A total of £545,000 is anticipated for new burdens.

4.6 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 £4,856,000. 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 are discussed below.

4.6.1 The Council has benefited from income under the Renewable Heat Incentive (RHI) scheme, following the installation of bio-mass heating at Speyside High School and Milne's High School. Payment under the RHI scheme ceases after seven years and provision of £65,000 is included to remove this income budget in 2020/21.

4.6.2 The additional funding for MIJB of £1,792,000 is included in budget pressures.

4.6.3 The Council on 8 May 2019 approved the creation of two new Senior Social Worker posts (paragraph 17 of the Minute refers). The budget pressure of £92,000 is the balance of costs allocated in 2019/20 following recruitment to bring the budget to a full year cost. Additional funding of £15 million was distributed to Council in 2019/20 to increase the provision of support for learning. In 2020/21 the same sum has been distributed as part of the Council's core grant. However, there is a clear expectation from Scottish Government that the monies thus distributed will be spent on additional support for learning. Accordingly, the Council's share of this funding – which was calculated as £257,000 in 2019/20 – is included as a budget pressure.

4.6.4 Costs of £353,000 in 2020/21 are estimated for running the new Linkwood Primary School building, due to open in August 2020. Additional costs of £40,000 are also anticipated to be incurred when the new Lossiemouth High School building is opened. School roll numbers are projected to increase and a budget pressure of £700,000 based on the latest school census figures is included. The contribution rate for contributions the Council as employer makes to the Teachers' Pension Scheme increased in September 2019 and a budget pressure for the full year effect of this increase is included. Scottish Government is providing additional monies as part of the Local Government Settlement to significantly contribute towards this additional cost. Provision of £139,000 in 2020/21 has been made for additional costs and reduced income anticipated following the introduction of new regulations for school meals. COSLA is making representations to Scottish Government about the financial impact this is anticipated to have.

4.6.5 A reduction in funding of £22,000 from the Department of Work and Pensions (DWP) as contribution towards the Council's cost of administering a range of benefits previously administered by DWP has been notified. This is the latest in a series of reductions in funding from DWP over a numer of years.

4.6.6 A one-off budget pressure of £80,000 to prepare economic impact assessments for four Moray Growth Deal projects is noted. This is an essential stage in business case development. This is considered to be the upper limit by doing as much in house as possible and any call on funds and costs will be contained at a lower level if possible.

4.6.7 The Council's leave year and financial year do not match, and under the accounting regulations which the Council must follow, the Council is obliged to account for holiday leave, flexi-leave and time off in lieu (TOIL) due but not taken at the end of the financial year. In order that this does not become a cost borne by the Council Tax payer, a statutory mitigation has been in force – this enables the Council to account for this notional cost through an unusable reserve. The mitigation is to be removed from 2020/21 for flexi leave and TOIL and this creates a budget pressure of £150,000.

4.6.8 When Elgin High School was built, significant quantities of peat had to be removed from the site. In order to facilitate this being done within a tight timescale, the Council agreed that land at Bilbohall, held on the Housing Revenue Account (HRA) could be used, providing the cost of remediation of this land when required for houses was not borne by the HRA. Planning permission for housing development is now sought, and a budget pressure of £120,000 for additional loans charges to cover the capital cost of remediation work is included. The capital plan presented to Council for approval does not include provision for this work.

4.6.9 The Council on 8 May 2019 approved an additional Business Support post in Education and Social Care (paragraph 9 of the Minute refers). The budget pressure in 2020/21 of £18,000 is to bring the currently allocated budget up to the full year cost of the post.

4.6.10 The Council on 12 February 2020 approved a variance to the Priority 1 routes for gritting at an estimated recurring annual cost of £15,000 and this is included as a budget pressure.

4.6.11 The Council's Microsoft licences are due to be renewed on 1 July 2020. The cost of this has not been confirmed but early indications are that across the corporate and schools licences an additional cost of £135,000 might be incurred and provision for this across 2020/21 and 2021/22 has been included.

4.7 The Council is looking ahead at a programme of Improvement and Modernisation to transform Council services, and this is a key part of the Council's medium term financial strategy. This requires investment and a sum of £2,000,000 is included for 2020/21. It is now assumed that this can be funded completely from capital receipts generated in 2019/20 and not spent and from capital receipts anticipated to be raised in 2020/21, under the permission given to use capital receipts to fund transformation of Council services for the period from 2018/19 to 2021/22. This takes the total budgeted revenue expenditure for 2019/20 before savings to £213,856,000.

4.8 The bulk of the Council's funding is from government grant, given as a combination of General Revenue Grant and Non Domestic Rates distribution. The local government settlement in January 2020 confirmed that funding for

Discretionary Housing Payments (DHP) and for the Teachers' Induction Scheme is being held back by Scottish Government at present. An estimate has been made for Moray's likely share of the funding streams for DHP and Teachers' Induction, as the expenditure on these areas is included in the base budget. Increased funding for Early Years Expansion will be paid as specific grant (as in 2019/20) and applied to that workstream, and so no estimate of either income or expenditure related to Early Years is included in the figures in **APPENDIX 1**. Core Scottish Government funding of £160,277,000 is included, plus £545,000 for new burdens. This compares to total Scottish Government funding of £159,543,000 in 2019/20. This is a headline increase in core budget support of £734,000, less the additionality for MIJB of £1,792,000, a reduction in core budget of £1,058,000 or 0.66% in cash terms.

4.9 Under the terms of the local government settlement for 2020/21 the Council is permitted to increase Council Tax by up to 4.84%, and given the anticipated reliance on reserves in 2020/21, a 4.84% increase has been included in the draft budget. This coupled with the projected rise in the Council Tax base is estimated to raise an additional £2,343,000 income. The impact on individual householders is set out below:

	Council Tax 2019/20	**3% Impact Council Tax 2020/21**	**4.84% Impact Council Tax 2020/21**
Band A	£841.20	£866.44	£881.91
Band B	£981.40	£1,010.84	£1,028.90
Band C	£1,121.60	£1,155.25	£1,175.89
Band D	£1,261.80	£1,299.65	£1,322.87
Band E	£1,657.87	£1,707.60	£1,738.11
Band F	£2,050.43	£2,111.94	£2,149.67
Band G	£2,471.03	£2,545.16	£2,590.62
Band H	£3,091.41	£3,184.15	£3,241.03

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.

4.10 Moray's Band D Council Tax for 2019/20 sits just above the Scottish average of £1,251. Comparisons with other councils are set out in the table below.

COUNCIL TAX BY BAND 2019/20

Scotland Average Band D Council Tax (based on total Band D Equivalents)	£1,251	
	Band D	**%age of Scottish average**
Eilean Siar	£1,138.40	91.0%
Shetland Islands	£1,150.64	92.0%
Orkney Islands	£1,152.69	92.1%
North Lanarkshire	£1,164.87	93.1%
Dumfries & Galloway	£1,166.19	93.2%
South Lanarkshire	£1,168.00	93.4%
Falkirk	£1,169.00	93.4%
Angus	£1,171.40	93.6%
Scottish Borders	£1,196.02	95.6%
West Lothian	£1,217.49	97.3%
Fife	£1,221.67	97.7%
East Renfrewshire	£1,230.41	98.4%
West Dunbartonshire	£1,233.83	98.6%
Aberdeenshire	£1,240.76	99.2%
East Lothian	£1,242.47	99.3%
Renfrewshire	£1,257.09	100.5%
East Dunbartonshire	£1,259.24	100.7%
Moray	£1,261.80	100.9%
Perth & Kinross	£1,264.00	101.0%
Clackmannanshire	£1,266.63	101.2%
Highland	£1,270.83	101.6%
Edinburgh, City of	£1,277.40	102.1%
North Ayrshire	£1,280.70	102.4%
Stirling	£1,282.23	102.5%
South Ayrshire	£1,282.87	102.5%
Inverclyde	£1,293.05	103.4%
Argyll & Bute	£1,308.83	104.6%
East Ayrshire	£1,311.86	104.9%
Dundee City	£1,316.00	105.2%
Aberdeen City	£1,324.33	105.9%
Glasgow City	£1,325.00	105.9%

Excludes Water and Sewerage

Source: As reported by the Local Authorities on the statistical return Council Tax Assumptions 2019

4.11 The resultant budgeted income to the Council for 2020/21 leaves a shortfall of income compared to expenditure of £7.3 million, which requires to be found from savings, which failing from reserves, as discussed in section 3 of this report.

5. SAVINGS

5.1 When the budget for 2019/20 was set a range of savings proposals were approved, many of which would not be fully achieved or not achieved at all until 2020/21. Further savings were approved on 26 June 2019, when the unaudited accounts were reviewed and on 14 January 2020, when the annual review of charges for services was approved. A further suite of savings was presented to Council on 27 November 2019 but deferred until the Council meeting on12 February 2020, when those not previously approved as charges were approved, subject to staff consultation in some instances. Any adjustments required following consultation have been delegated to service managers. All previously approved savings are listed in **APPENDIX 3**.

5.2 Further savings totalling £189,000 across 2020/21 and 2021/22 are presented to Council today. These are listed on **APPENDIX 3** and discussed below.

5.3 Homelessness Allocations (Marleon House) Following discussions with Moray Women's Aid (MWA) it is proposed to reduce the housing support contract relating to Marleon House by £42,000 from 1 July 2020. The impact of this would be the withdrawal of the overnight helpline, withdrawal of staff sleepovers, reduction in support staff hours and management hours, unless MWA can source other funding. An Equalities Impact Assessment for this savings is reported as **APPENDIX 5** to this report.

5.4 Charge cost of SQA music tuition to schools It is proposed to recharge secondary schools the cost of music tuition for pupils sitting SQA music examinations. This is estimated to save £12,000, based on current numbers of pupils sitting music SQA examinations.

5.5 School DSM budget to bear cost of absence until 20 days Currently teaching staff absence for the first ten days is a charge to the school's devolved budget and from the 11th day is charged to the central supply budget. It is proposed that this changes so that school budgets cover the first 20 days of staff absence. At present the central supply budget is forecast to overspend and this measure should reduce the pressure on that budget.

5.6 Moray Leisure Centre Moray Leisure Ltd has agreed to a reduction in grant support from the Council of £60,000 in 2020/21. This will not impact on the service delivered at Moray Leisure Centre. The reduction in funding is covered by increase income from increased usage.

5.7 Cease funding for NHS Mental Health support team from 2021/22 This service is not currently being used by the Council and the NHS has been notified that the funding of £75,000 is being withdrawn. If some or all of this saving can be taken in 2020/21 it will be taken earlier.

5.8 Temporary savings of £583,000 for 2020/21 are noted. This consists of one-of income from the final VAT claim regarding leisure services opting for exempt status, forecast at £540,000 and an estimate of repayment of Business Loan Scotland loans as reported to Policy and Resources Committee on 29 October 2019 (item 9 of the Minute refers), also one-off income.

5.9 Work will continue to find budget savings, to decrease the predicted budget gap for 2021/22 and if possible identify additional savings which can be made during 2020/21.

6. CAPITAL BUDGET

6.1 The Council approved its latest Capital Strategy on 12 December 2018. 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. This was a move from previous Capital Strategies which had been primarily focussed on asset management and the need to invest in the Council's asset base to bring it up to or maintain it at the Council's approved standard for the asset type.

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

- Local Development Plan and other council plans
- 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 A draft ten year capital plan is included as **APPENDIX 4** to this report. Expenditure of £42.3 million is proposed for 2020/21. Expenditure under the draft plan and sources of funding are summarised below:

	Driver	**£m**	**%age**
1.	Local Development Plan and other Council plans	2.3	5.3%
2.	Asset Management Planning	26.9	63.6%
3.	Expenditure arising from legislative requirements	10.4	24.5%
4.	Improvement and Modernisation Programme / efficiencies	0.5	1.3%
5.	Funded government priorities	2.1	4.9%
6.	Other developments to meet Council priorities		0.1%
7.	Responsive expenditure	0.1	0.3%
	Total	42.3	100%

	Funding	**£m**	**%age**

	Grant funding	9.8	23%
	Prudential borrowing	32.9	77%
	Total	42.7	100%

6.4 The Council's borrowing must comply with the Prudential Code: this requires borrowing to be affordable and sustainable. As identified in a report to Council on 30 March 2016 (paragraph 7 of the minute refers) the Council's overall financial position is not sustainable and the capital plan for future years requires to be reduced; to achieve this the Council must reduce its asset base, and this issue was addressed in the Property Asset Management Appraisal (PAMA) approved by Council on 12 December 2018 (paragraph 6 of the minute refers).

6.5 As well as the work currently being carried out under the PAMA, there are other significant pieces of work which will shape the development of the Council's ten year capital plan, in particular the Learning Estate review, Leisure review and Climate Change Strategy and Action Plan. Accordingly the detail of the plan, particularly for future years is not well developed at this stage across all headings. 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, the Capital Plan is presented in outline format, with detail to be brought forward to service committees and in line with other major projects which will impact on the capital plan.

6.6 Based on indicative high level work about the likely amount of spend the draft plan shows considerable growth in years six to ten from the indicative ten year capital plan noted by Council on 27 February 2019 (paragraph 4 of the minute refers). This shows the value of scoping out work at a high level for the medium term, as this gives the Council good prior warning that there is an increasing need to review its asset base and service delivery arrangements in order to respond to this forecast increase in demand, or – and particularly in the case of the Learning Estate – to attempt to source funding for the level of work which has been identified as required.

6.7 Provision has been made in the later years on the ten year plan for funding for school re-build or refurbishment. Plans will be developed following approval of a Learning Estate Strategy, to guide that process. In the meantime, no provision has been made for Scottish Government grant funding, which under current arrangements would take the form of revenue support.

6.8 The various component strands of the ten year capital plan are discussed below.

6.9 <u>Bridges</u> The Council's programme of bridge refurbishments is based on conditions surveys and strategic importance, and is kept under review. Failing bridges can be life-extended by having weigh 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 ten year plan is for expenditure of £15.5 million, with £1 million provisionally allocated for 2020/21.

6.10 <u>Car parks</u> The Council has a programme to replace waterproofing and expansion joints in multi-storey car parks. It is proposed to augment that with budget for replacement lighting in multi-storey car parks and for resurfacing car parks as and when more work than can be carried out from the car parks revenue budget is needed. £269,000 is provisionally allocated for 2020/21.

6.11 Corporate This budget heading covers small budgets for furniture and equipment; for minor energy efficiency projects; contains provision in years two and three for potential works relating to depots, which will be planned in detail following the completion of the depot review under PAMA, and the vehicle and plant replacement programme for the Council's fleet of vehicles. The budget included is based on a like-for-like replacement of vehicles under the Council Fleet Asset Management Plan (AMP), which seeks to replace vehicles at the optimum time in their life-cycle, taking into account maintenance cost and downtime, and therefore optimum cost to the Council. Following adoption of a Climate Change Strategy and Action Plan, the Fleet AMP will require to be reviewed and this will be done through the Council's governance arrangements. Consideration will also require to be given to the infrastructure to support electric or hydrogen powered vehicles. A total of £3.1 million is allocated for 2020/21, with £3 million for vehicles.

6.12 Economic Development This line in the Capital Plan is for the Council's contributions to the Moray Growth Deal. It will be required to be developed in detail when Heads of Terms have been signed. Meantime an indicative sum of £500,000 is included in the budget for 2020/21 to support project development, with a view to some projects commencing capital works in 2021/22.

6.13 Flood Risk Management and Flood Protection This budget line includes provision for outline design and promotion of a coastal flood protection scheme at Lossiemouth Seatown in 2020/21, with provision for construction of a scheme in future years. Construction of a scheme is contingent on grant funding from Scottish Government. £0.2 million is provisionally allocated for 2020/21.

6.14 Harbours This programme is founded on asset management principles and based on condition information. A detailed programme of works will be brought forward annually to the Economic Development and Infrastructure Services Committee. £0.7 million is provisionally allocated for 2020/21.

6.15 ICT This budget is also largely based on asset management planning and includes for replacement desktop and mobile devices, network infrastructure, servers infrastructure, software and telephony. It includes the final stages of the Schools ICT Strategy implementation. £0.9 million is provisionally allocated for 2020/21.

6.16 Industrial Portfolio The bulk of this budget is for development of the industrial portfolio, in support of economic development in Moray and increasing revenue income. It allows for acquisition of land, site servicing, construction of new units and the refurbishment of existing stock at locations across Moray. Detailed plans are reported to the Economic Development and Infrastructure Services Committee on an annual basis. £0.3 million is provisionally allocated for 2020/21, for refurbishment of existing units.

6.17 Libraries and leisure No significant expenditure is anticipated under this heading for 2020/21, pending conclusion of the Leisure Review. A provisional budget of £60,000 is allocated in the draft Capital Plan for fittings, furniture and equipment.

6.18 Mortuary Services A business case has been prepared for replacement mortuary facilities in Aberdeen and a requirement also exists for a replacement mortuary facility in Elgin. This line is included as a marker that the Council will have to consider the extent of its involvement in either or both of these projects and business cases brought forward as to how this is to be done to ensure Best Value for Moray Council.

6.19 Parks and Open Spaces This budget is to cover new or extended cemetery provision in accordance with the Council's cemetery provision policy; upgrading existing cemetery infrastructure; replacement of equipment in play areas; operational works arising from tree surveys; upgrade of parks and open space infrastructure. The annual budget in 2019/20 was £35,000 and was estimated to be sufficient to maintain equipment in one play area on a Make Do and Mend basis. Budgets totalling £170,000 have been added in for upgrading existing cemetery infrastructure, operational works arising from tree surveys and upgrade of parks and open space infrastructure, where it is recognised that the Council's asset management has been lacking, with an additional £100,000 for play area equipment replacement in order that play areas can be refurbished with modern equipment. Play area equipment is being considered as a potential for Participatory Budgeting. In total £305,000 is provisionally allocated.

6.20 Roads On 11 February 2014 Moray Council made the decision to allow Moray's road condition to deteriorate, with a target to be at mid-point in the national table across the network as a whole by the end of the following 5 year period (paragraph 3 of the Minute refers). It was recognised that this would be a short-term measure and that in due course the capital budget would require to be increased to keep Moray's roads at the new target of mid-point in terms of conditions. A reduced capital investment since that decision has caused our network condition to deteriorate and the Economic Development and Infrastructure Services Committee on 21 January 2020 (paragraph 7 of the draft minute refers) considered a report highlighting that Moray's road condition indicator figures are now increasing more aggressively than previous years and that if this is not addressed, the costs of reversing this trend will rapidly become unaffordable. The draft capital plan therefore includes a phased increase in capital budget of £500,000 on an annual basis to address this issue. It is proposed that the roads service will monitor the annual RCI figures and adjust the future capital investment recommended to Council accordingly to address the road network deterioration. £3.6 million is provisionally allocated for 2020/21.

6.21 Road Safety This budget head covers a comprehensive range of road safety elements: barriers, traffic islands, lines, pelican crossings, minor junction improvements, dropped kerbs, disabled parking spaces, road signs and markings. The Council may require to incur expenditure to prevent pavement parking, but no details of this are currently available. A budget of £355,000 has been provisionally allocated for 2020/21.

6.22 Street lighting This budget includes the final element of the LED street lighting project and thereafter is for the replacement of life expired columns. The budget for 2020/21 is £1.1 million.

6.23 Traffic This includes replacement of life expired traffic signal and traffic data collection equipment and Cycling, Walking, Safer Streets, funded by specific capital grant from Scottish Government. An allowance for developments in Elgin is included in the latter half of the ten year plan. The provisional allocation for 2020/21 is £384,000.

6.24 Waste Management This budget includes £9.7 million for the construction of the NESS energy from waste plant, as agreed by Council, and provisional sums for the construction of a new cell at Dallachy (£1.65 million) and replacement recycling centre in Elgin (£0.5 million) , which projects requires to be approved through the Council's governance arrangements befiore any capital allocation could be spent. £60,000 is also included for new domestic and trade waste bins and containers for recycling centres. A provisional sum of £12.2 million is included in the draft budget but over £2 million is at a very high level estimate relating to projects which are at a very early stage in development.

6.25 Schools BB and other minor works The Council on 27 February 2019 (paragraph 4 of the minute refers) agreed to commence a planned move from Make Do and Mend to a programme of works aimed to reach and maintain BB standard for all Council buildings. 2020/21 will still be a transitional year for schools expenditure. The programme in future years will be under the aegis of the Learning Estate Strategy, which is currently in the course of being developed. Significant increased expenditure is likely to be necessary to meet backlog maintenance. Provision is also included for resurfacing and rejuvenating astro-turf pitches and for works arising from fire safety and other similar inspections. A provisional allocation of £3.4 million is included in the draft capital plan for 2020/21.

6.26 Schools new builds and refurbishment The budget for 2020/21 consists of £10.3 million for the replacement Lossiemouth High School, £1.2 million for Linkwood Primary School, £0.5 million as a provisional budget allocation for preliminary options appraisal and design work relating to Findrassie Primary School and £1.9 million for the expansion of Early Learning and Childcare, which is fully funded by specific government capital grant. Future years contain high level indicative costs on an illustrative basis only at this stage.

7. FUTURE YEARS

7.1 As noted in paragraph 3.3, the local government settlement for 2020/21 is a one-year settlement only. To assist in forward planning, projected budgets for 2021/22 and 2022/23 are included in **APPENDIX 1**. This assumes that the savings approved for 2020/21 and 2021/22 are achieved and the rest of the budget rolled forward, with adjustments for one-off funding and one-off savings. With a provision for inflation and known budget pressures, this results in a shortfall of £8.3 million in 2021/22: an underlying overspend of £3.8 million to be met from reserves in 2020/21 plus inflationary and other budget pressures anticipated in 2021/22 totalling £6 million, less an anticipated reduction in loans charges of £0.3 million following a change to the method used to calculate loans charges, and a modest reduction (£0.3 million) in core government funding and increase in income from Council Tax of £1.6 million.

7.2 Various components in the budget are used to develop best case, worst case and mid-point scenarios for financial planning purposes. These have been finalised for the draft 2020/2021 budget. The assumptions used for future years are described in the Medium to Long Term Financial Strategy, which forms another item on the agenda for this Council meeting.

7.3 The Capital Plan will be amended following development of the Learning Estate Strategy, conclusion of the Leisure Review and adoption of the Climate Change Strategy and Action Plan.

8. 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 2019/20 and pressures from inflation and service requirements in 2020/21.

As the draft budget assumes use of reserves in 2020/21, that funding gap is carried forward into 2021/22. It is anticipated that the Council will be then have almost exhausted free reserves and the result is a very challenging forecast budget gap for 2021/22.

It is important that this is taken into account when considering budget proposals for 2020/21.

(d) Risk Implications
The proposed budget for 2020/21 is subject to the following risks:

- Budget assumptions may be lower than the actual level of expenditure required by services.
- Price inflation will impact on areas where no provision has been made for inflationary increases and this will add pressure to budgets. Budget Managers will need to control their expenditure to absorb any such pressure and may have to reduce service levels or identify further savings.

- A particular risk relating to construction inflation should be noted. The Royal Institution of Chartered Surveyors (RICS) are forecasting an above inflation rise in tender prices for the next five years, reflecting input costs pressures and forecast growth in construction work. This could significantly impact on the capital plan
- 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 little allowance made for contingencies.
- Government funding may be less than assumed for the elements yet to be allocated at Council level.
- Council Tax income may be less than anticipated, depending on the collection rate, 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, including BREXIT, 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 an overspend for the second successive year and the Council is obliged to meet its share of the overspend, despite having no influence on the operation of the Board.

(e) Staffing Implications

Only one new saving proposed in this report has staffing implications, and the proposed reduction in hours has been mutually agreed by the staff affected. All other staffing implications have been fully discussed in earlier reports proposing savings

(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.

Only one of the proposed savings required an EIA and it is included as **APPENDIX 5** to this report.

Socio-Economic Impact
To assess socio economic impacts, consideration has been given to individual and cumulative impact. In relation to changes to charges for services, most of these are one-off or incidental charges which are unlikely to contribute to inequalities in terms of outcome based on socio-economic differences.

(h) Consultations
CMT and Heads of Service have been consulted in the preparation of this report.

Communication from the EIS in November 2019 when the DSM proposals were initially discussed raised concerns about further pressure for schools with possible overspends, the lack of influence over absence through illness and the impact on budget for supply or other areas in order for cover to be provided. For the SQA Music Instruction proposal, the concern was that this would also add pressure to reducing budgets, some schools may consider having to pass the cost on to parents and that this would be contrary to addressing the poverty and raising attainment agendas as well as the ethos of collaboration and collegiality expected within the empowerment agenda. Further opportunity for providing thoughts and views on the DSM related proposals was provided to the Local Negotiating Committee for Teachers, however the date for receipt of same passed with no additional comments received.

The concerns that have been raised are noted, however the challenging financial situation and future facing the Council means that difficult decisions are required and all council services are having to manage reducing budgets. Further consideration is being given to managing absence where there is a direct front line replacement cost and as those responsible for managing absence in their schools, head teachers will have a significant role to play in ensuring this is managed in accordance with agreed policy and procedures. Additional resources are also being accessed that will help to address the main causes of absence such as mental health training through the Flexible Workforce Development Fund. Regarding the SQA proposal, once the impact of the changes are split across schools, the school level impact is lessened to make the change more manageable.

9. <u>CONCLUSION</u>

9.1 The Council's revenue budget is unsustainable, even in the short term, with a balanced budget achieved for 2020/21 by use of reserves. Significant further savings are forecast to be required in 2021/22.

9.2 The budgets for 2020/21 and 2021/22 include provision to invest in transformation of the Council.

9.3 To minimise the level of savings required and avoid breaching the Reserves Policy, Council Tax is proposed to be increased by the maximum permitted by Scottish Government without incurring sanctions.

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Background Papers: